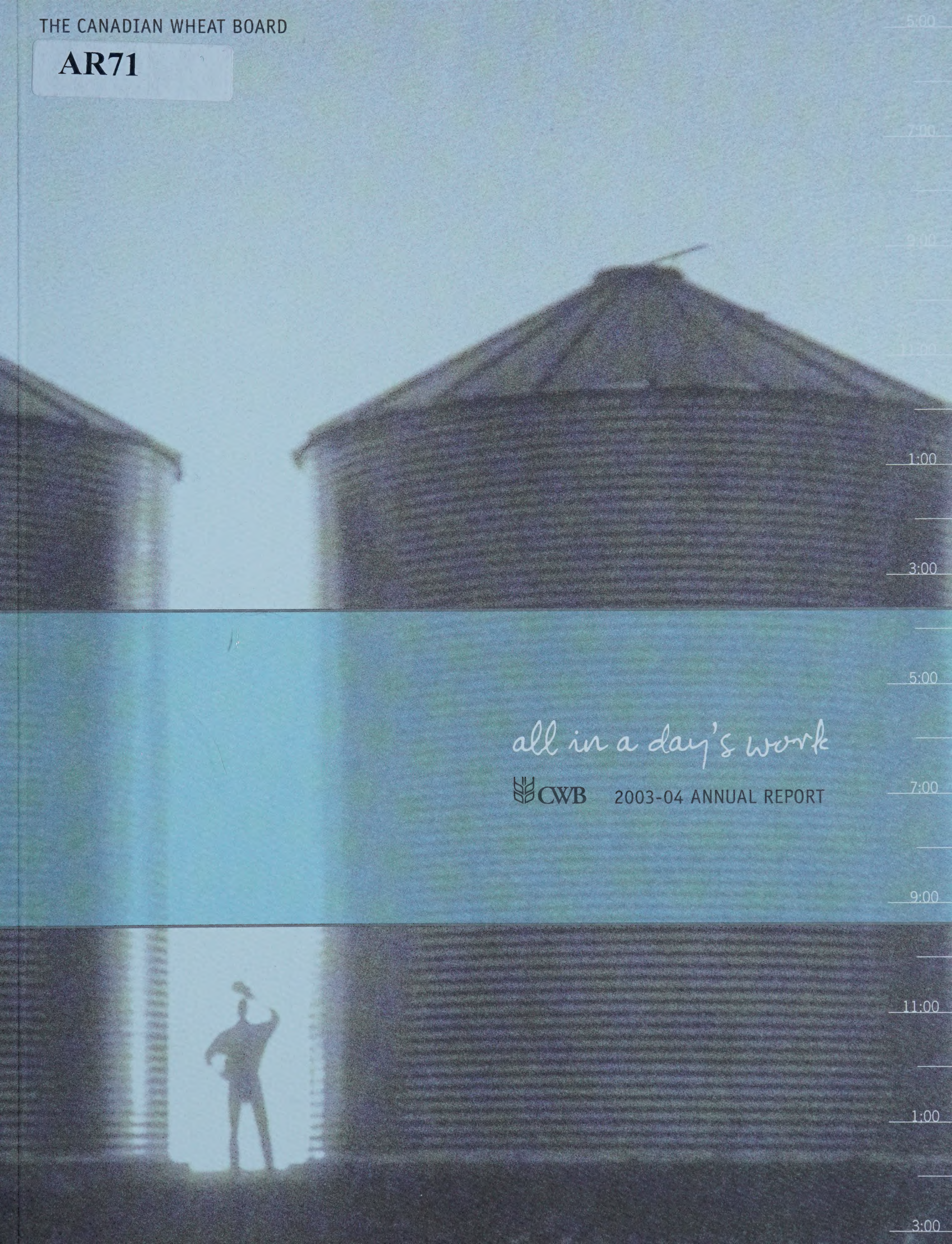
THE CANADIAN WHEAT BOARD



all in a day's work

CWB 2003-04 ANNUAL REPORT

Vision

To unite western
Canadian grain farmers
as the world-recognized,
premier grain marketer.

Mission

The CWB markets
and provides quality
products and services
in order to maximize
value to our owners,
western Canadian
grain farmers.

Contents

The CWB markets western Canadian wheat and barley in Canada and throughout the world.

All sales revenue, less marketing expenses, is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees. As a major international grain trader and a major earner of foreign exchange, the CWB enables Prairie wheat and barley producers to go head-to-head with other major players in the grain industry.

FINANCIAL HIGHLIGHTS

	2003-04	2002-03	2001-02	2000-01	1999-2000
Combined pool operating results ($ millions)					
Revenue	**$4,136.2**	$3,339.9	$4,379.2	$4,220.9	$4,457.2
Direct costs	**369.7**	318.7	384.5	350.5	317.8
Net revenue from operations	**3,766.5**	3,021.2	3,994.7	3,870.4	4,139.4
Other income	**161.1**	132.7	188.5	179.9	178.7
Net interest earnings	**56.1**	54.8	91.6	75.2	71.0
Administrative expenses	**(67.6)**	(54.1)	(50.4)	(66.4)	(63.8)
Grain industry organizations	**(1.8)**	(1.8)	(1.7)	(1.7)	(1.7)
Earnings for distribution	**$3,914.3**	$3,152.8	$4,222.7	$4,057.4	$4,323.6
Receipts from producers (000 tonnes)					
Wheat	**12 376**	8 696	13 331	13 961	16 427
Durum	**3 080**	3 804	3 246	3 665	3 976
Designated barley	**2 138**	891	2 205	2 273	2 554
Barley	**844**	40	54	454	672
Total	**18 438**	13 431	18 836	20 353	23 629

A message from the Chair of the board of directors and the President and CEO

The 2003-04 crop year was a time of renewal.

After two consecutive years that saw yields in many areas of Western Canada drastically reduced by drought and grasshoppers, farmers showed that while they are often challenged, they are rarely beaten.

The favourable harvest conditions experienced across much of Western Canada provided many farmers with a chance to bring in a high-quality crop. As always, farmers grabbed onto the opening that nature provided and succeeded in making the most of the opportunity. More than 90 per cent of the spring wheat crop graded No. 1 and No. 2, well above the 65-per-cent average. Protein levels were high, and many farmers felt tremendous satisfaction in terms of the quality they produced.

Sales managers at the CWB quickly moved into action, marketing one of the best quality crops harvested in a decade. Export targets for wheat, durum and barley were set at 16 million tonnes. While a lack of needed rain in some areas meant the target was below the 10-year average of 19.5 million tonnes, it was double the target of the previous drought-ravaged year. The CWB exceeded its export target, selling 16.6 million tonnes of grain and products to more than 70 countries. Here at home, over two million tonnes of grain were sold to domestic buyers. In the end, total sales revenue climbed to $4.1 billion, up from $3.3 billion just one year ago.

There were other accomplishments achieved by the CWB in 2003-04 as well.

- Transportation savings generated by a combination of freight and terminal rebates, CWB financial penalties for non-performance and tendering amounted to over $51 million in 2003-04, a significant increase over the $34 million saved in 2002-03 and the $41 million saved in 2001-02. Despatch savings, which are paid to the CWB when ships leave port ahead of schedule, were also impressive, with a record $15 million returned to farmers.

- A year of progress was experienced in the trade arena. Firstly, the potential tariff on durum going into the U.S. was lifted and secondly, the World Trade Organization (WTO) proclaimed the CWB to be a fair trader following an intense U.S. investigation. Work now must focus on two areas: the new WTO framework agreement for the Doha Round of negotiations, which threatens the CWB's payment and borrowing guarantees; and on having the tariff removed on spring wheat going into the United States.

- A new 100 per cent Early Payment Option for wheat and barley was developed, as part of the CWB's commitment to providing farmers with choice. Changes were also made to Fixed Price and Basis Payment Contracts, which make them easier to use.

- The CWB advocated on behalf of farmers' right to choose how they market their own crop, in response to the Government of Alberta's campaign for a test open market.

- Corporate restructuring was implemented, which positioned the CWB for the future by reducing costs and putting the best people in the right positions. Staff and department restructuring will ensure that farmers' evolving needs are foremost in our business model.

- Monsanto opted to shelve Roundup Ready wheat after the CWB and other industry organizations voiced their objections on behalf of farmers.

As you continue through the Annual Report, you'll read about other successes in more detail, starting with a farmer's personal account of the harvest and ending with a closer look at the day-to-day work conducted by the marketing organization that works for all Prairie wheat and barley farmers.

By taking advantage of the excellent harvest conditions following two tough years in a row, the majority of Prairie farmers showed that success is often just another word for determination. As their marketing organization, the CWB embraced that spirit and also has an impressive list of achievements to reflect upon. We salute both the farmers who made this year possible and the staff who worked so hard to add to their efforts.

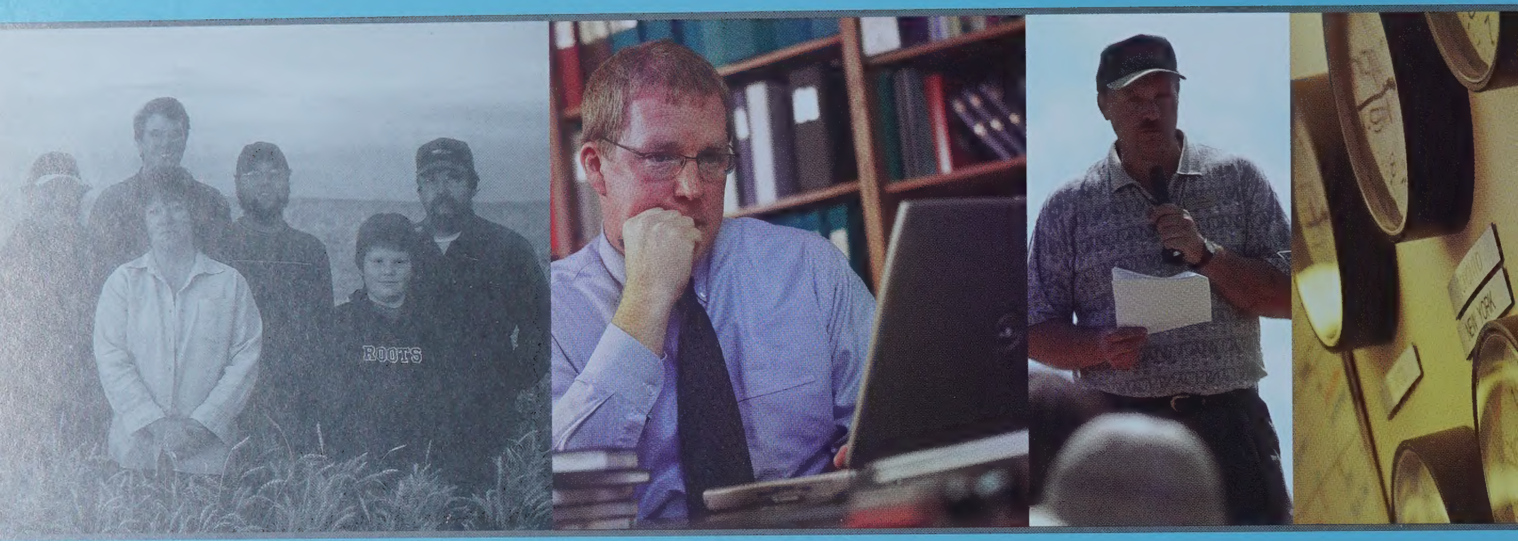
Ken Ritter

Ken Ritter
Chair, board of directors

Adrián Measner

Adrian Measner
President and Chief Executive Officer

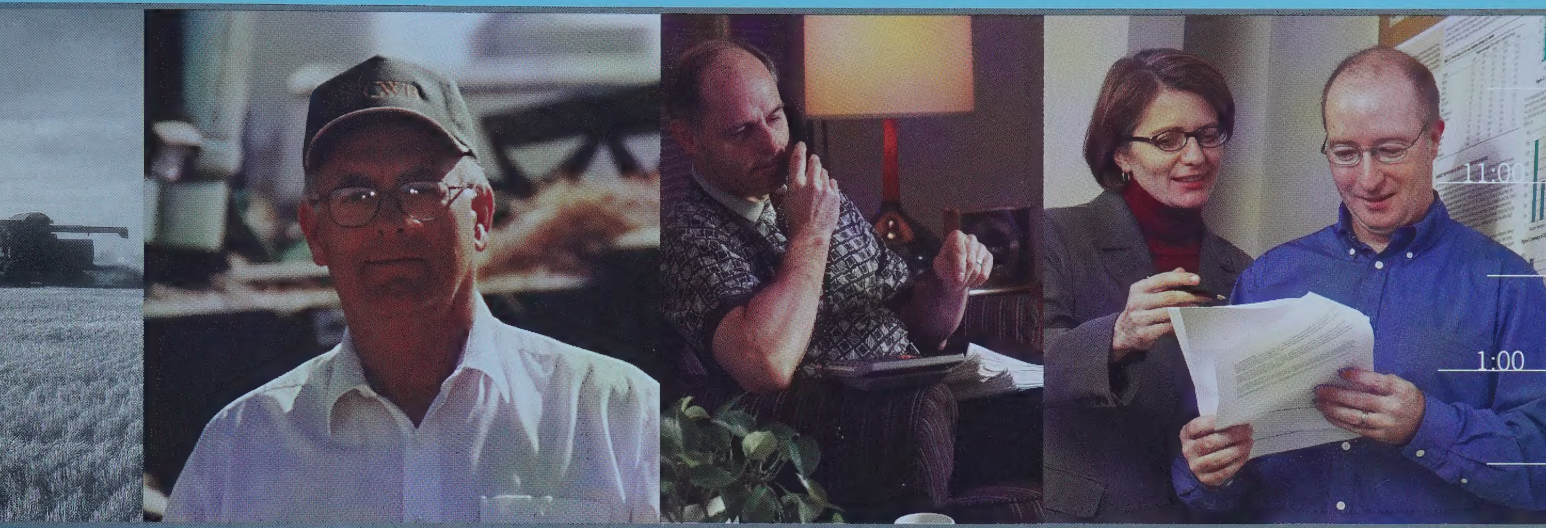
Introduction



all in a day's work

The list of what farmers and their marketing organization, the CWB, accomplished in 2003-04 is both impressive and lengthy.

But it's not out of the ordinary.



Farmers have often persevered through environmental and financial challenges that others would likely find overwhelming. During seeding and harvest, they frequently put in workdays that start at dawn and last well into the night; a fact of life they consider commonplace.

It isn't only individual farmers who face this test of stamina. Typically, the entire family is called in, working side-by-side to get the crop in or take it off before the weather changes. Family dinners are often eaten in a grain field and sleep is in short supply during these stressful periods. But farmers consider this kind of commitment a normal part of life. It has to be done, and so it is done, each and every day across Western Canada.

The CWB shares a similar spirit and desire to achieve results. Each day, farmers are served, customers are contacted and plans are implemented. Some results are unheralded; others receive more coverage. But each effort is designed with a solitary purpose: to add value by successfully marketing wheat and barley domestically and to more than 70 countries worldwide.

While the days, both on the farm and in the CWB offices, are often long, Prairie grain farmers and their marketing agency accomplish a lot, all in a day's work.

The following are five such accomplishments. While each success represents a regular occurrence in the western Canadian grain industry, the achievements are far from ordinary.

Howard's story

Howard Vincett shrugs off suggestions that a 17-hour workday is beyond the call of duty for the western Canadian grain farmer.

"I've put in days like this my whole life," says the 49-year-old farmer, as he fills a tank with diesel in the farmyard surrounding the home where he was raised, five miles east of Forestburg, Alberta.

Vincett is referring to the annual tradition where western Canadian wheat and barley farmers spend night and day in their fields during harvest, for weeks at a time.

"It's just the kind of effort you've got to put in during harvest season," he says. "Otherwise, the weather could turn wet and you could lose a good crop."

That kind of effort and determination certainly paid off for Vincett during the fall of 2003. Nearly every kernel of Canada Western Red Spring wheat he sowed on his 3,000-acre farm graded No. 1 and averaged over 17-per-cent protein.

"It was an exceptional season for quality and I got some of the best samples I've ever had," he explains. "You can't do anything about bad weather, but you've got to be ready when the weather's good, and that means going until the crop is in."

Long days aren't something Vincett does alone. The entire family, including his wife Cindy, his brother and business-partner Ken, his sister-in-law Val and his two sons, 22-year-old Evan and 20-year-old Steven, work together from sunup to sundown, finishing one field completely before moving on to the next.

On weekends, when the younger Vincetts arrive home from university and college to lend a hand, lunch and dinner are often spent in the field, with the tailgate of a pick-up truck serving as both table and chair. While Cindy runs for machine parts, Howard fills one inoperative combine with fuel and Ken operates another. Soon the repaired combine is running and Cindy climbs into the cab to begin circling the field behind Ken.

Time not spent on the family farm is directed to the Battle River Producer Car Group, a shipping facility Vincett founded with a dozen area farmers in 2003, which allows them to load producer cars locally.

And, as always, he's planning for the future.

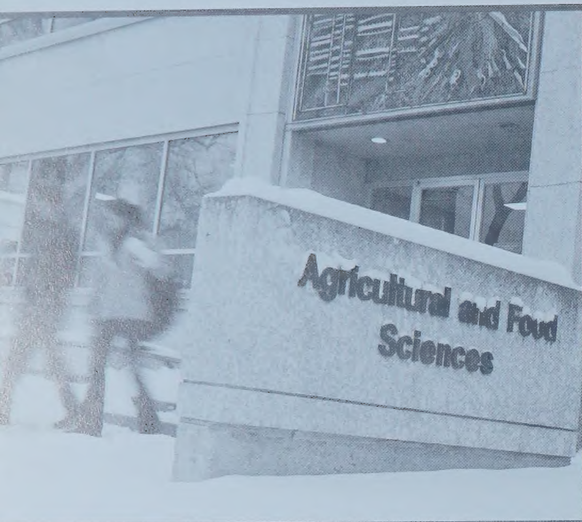
"I'm already thinking about what I'll seed next spring, and making plans for the long term; what equipment I'll need, what inputs I'll have to buy."

When asked if he ever longs for a nine-to-five job with regular hours and a steady pay-cheque, his reaction is decisive.

"This is the only lifestyle I want; I could never imagine myself inside all day," he says. "The land I farm has been here for thousands and thousands of years and taking care of it gives me a real sense of purpose."

Harvesting one of Western Canada's highest quality crops...

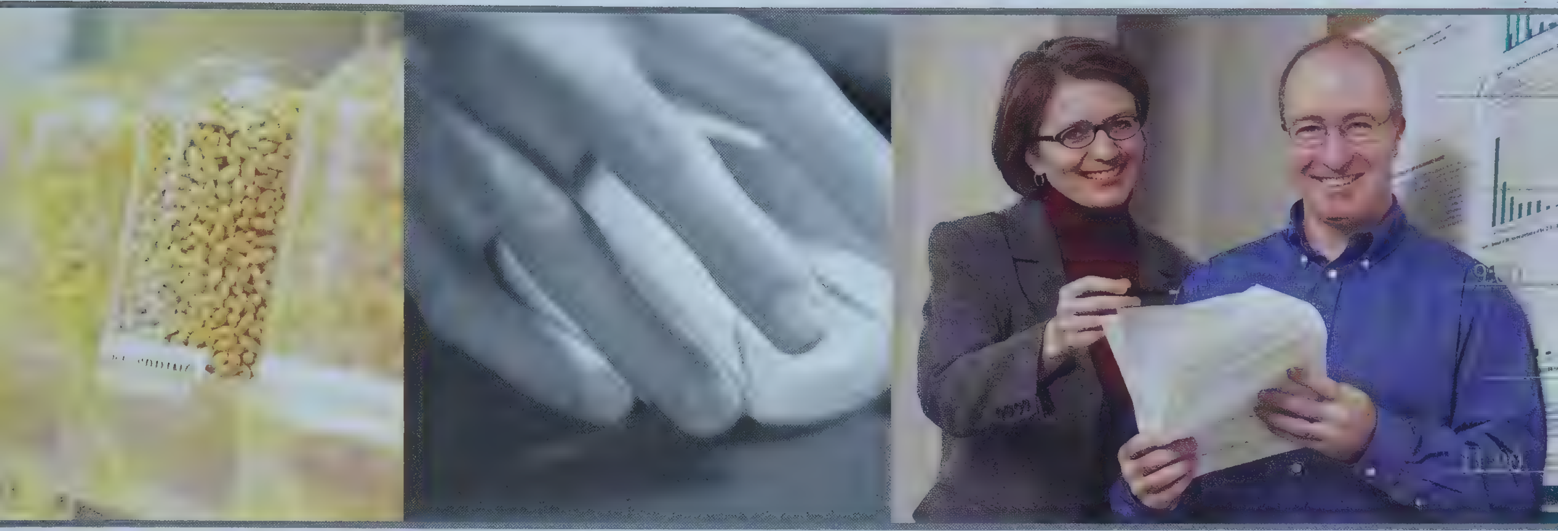
all in a day's work.



Many farmers... one voice

Getting e-mail has become such a standard part of the corporate workday that it doesn't usually create much excitement. But every once in a while, a message arrives in an in-box that changes the mood of the entire day. For CWB senior program manager Patty Rosher, that day was May 10, 2004.

"It was such unexpected good news, that I had to read the message twice," explains Rosher, who manages the CWB's file on biotechnology.



The message responsible for Rosher's reaction was a news release issued by Monsanto, stating the research conglomerate was suspending efforts to introduce Roundup Ready wheat, due to a lack of widespread industry support.

Monsanto had been working on the development of a genetically-modified (GM) wheat, resistant to the company's Roundup Ready herbicide, since 1997. Concern about premature introduction of the variety quickly swept through the industry, as customers in markets that represent more than 87 per cent of CWB wheat sales voiced their objections to purchasing GM wheat.

The CWB's position has consistently been that no GM wheat variety should be introduced until it meets several conditions, the most important being that it represent a net economic benefit to farmers. Analysis conducted by agricultural economists at the University of Saskatchewan showed that Roundup Ready wheat did not pass the cost-benefit test.

The CWB joined forces with other Canadian farmer-based organizations and worked to send Monsanto a clear message: Roundup Ready wheat should not be released.

"We were concerned that losing our markets could spell disaster for the Canadian wheat industry," explains Bill Nicholson, a member of the CWB's board of directors and the lead farmer advocate on the GM file. "Farmers were worried their livelihoods would be at risk."

Other concerns soon surfaced, when a review conducted by CWB agronomist Mike Grenier demonstrated that Roundup Ready wheat would have negative effects on reduced- and zero-tillage crop management systems. Grenier's findings were confirmed when an independent study performed by scientists at the University of Manitoba reached the same conclusions.

"Roundup Ready wheat was proving to be a bad idea from many angles," says Rosher. "We aren't opposed to the benefits that biotechnology might bring in the future, but we needed Monsanto to acknowledge the potential risks that Roundup Ready wheat would bring in the present."

It's a message that Monsanto seemed to have heard. On June 18, 2004, Monsanto announced it was withdrawing all government regulatory applications for Roundup Ready wheat in Canada, a required step in releasing a new wheat variety.

Rosher didn't get much time to relax following the announcement, however. The CWB and other farmer organizations began working almost immediately to jointly lobby the Canadian government to add a cost-benefit analysis to the regulatory decision-making process that will protect farmers' interests if and when new GM varieties are considered in the future.

"We're not opposed to biotechnology in the least," adds Rosher. "New varieties may be developed that have attractive processing or nutritional traits or real agronomic advantages and provide a positive cost-benefit to farmers."

Advocating for farmers by providing one voice...

all in a day's work.

Selling grain around the clock

It's not uncommon for Darrell Bushuk's bedside phone to ring at 3 a.m. The senior marketing manager for Asia Pacific often receives early morning calls from the Pacific Rim, where the clock is 13 hours ahead of Central Standard time.

"Since a single call can mean the difference between making a sale and losing one, I just consider being woken up at all hours to be a normal part of my work day," explains Bushuk.

Bushuk leads a group of CWB sales experts who specialize in servicing the Asian market. In Winnipeg, Bushuk works alongside marketing managers Don Bonner and Derek Sliworsky, who determine sales and marketing strategies for exporting western Canadian wheat and barley to Asia and the Pacific Rim, with a special emphasis on China and Japan, two of the CWB's most valued buyers. The trio also discusses immediate opportunities with Haiguang Shi, general manager of the CWB's Beijing office, and David Iwaasa, general manager of the CWB's Tokyo office.

Bushuk believes the team's effectiveness is based on its ability to provide personal customer service on a daily basis. Recent sales figures show that it's on the right track.

This year, China was the biggest foreign buyer of western Canadian wheat, worth an estimated $500 million to farmers. Nearly 1.5 million tonnes of wheat were sold there in 2003-04, up from just 185 000 tonnes in 2002-03. Significant amounts of western Canadian barley also made their way to China, with 332 000 tonnes exported this year, up from only 81 000 tonnes in 2002-03.

The majority of wheat and barley imported into China is purchased by the China National Cereals, Oil and Foodstuffs Import and Export Corporation (COFCO). Establishing and maintaining sales relationships with COFCO representatives is a primary concern for the CWB, which has cultivated a close association with the grain-buying giant since 1961.

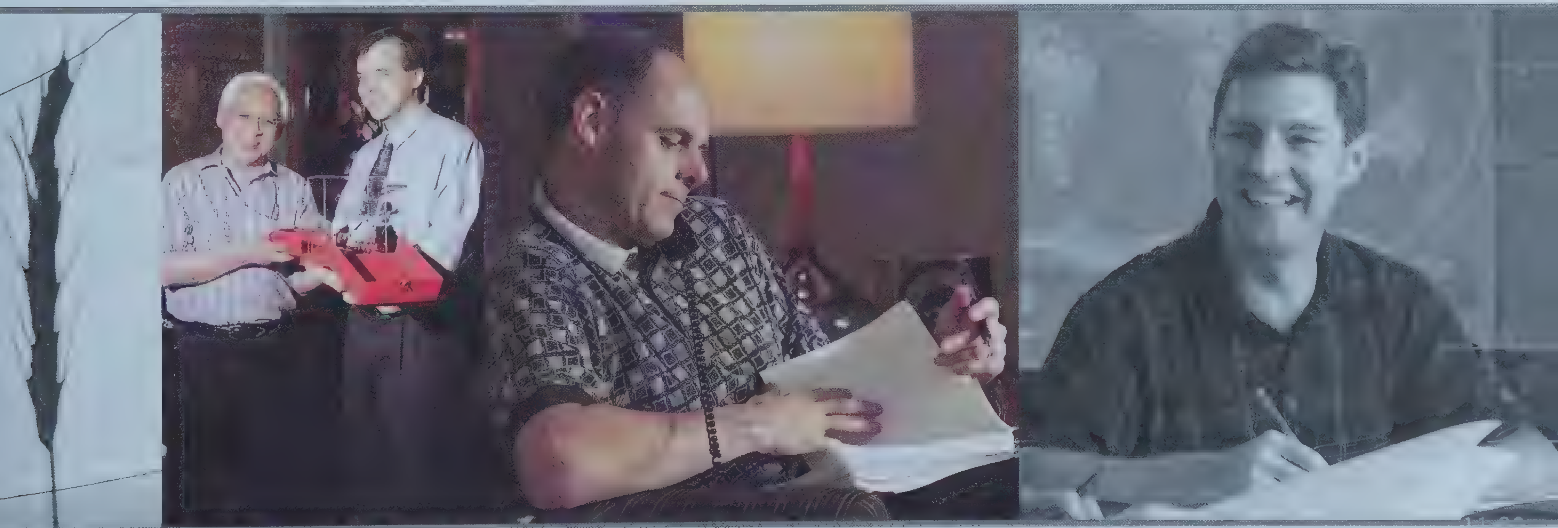
"We're in direct contact with COFCO every day," says Haiguang Shi, general manager of the CWB's Beijing office. "In fact, our offices are located inside COFCO's own building."

Winnipeg staff also travel overseas on a regular basis to meet one-on-one with customers and conduct seminars. In addition, nearly 3,500 Chinese industry professionals have attended the CWB-funded Canadian International Grains Institute (CIGI) courses since the educational organization was launched in 1972.

These contacts are essential to the future of western Canadian wheat and barley exports, as China is expected to be an even more significant buyer in the coming years. With an economy that is one of the fastest growing in the world, Chinese end-users will increasingly have higher incomes to spend on premium foods and beer made with high-quality western Canadian grain.

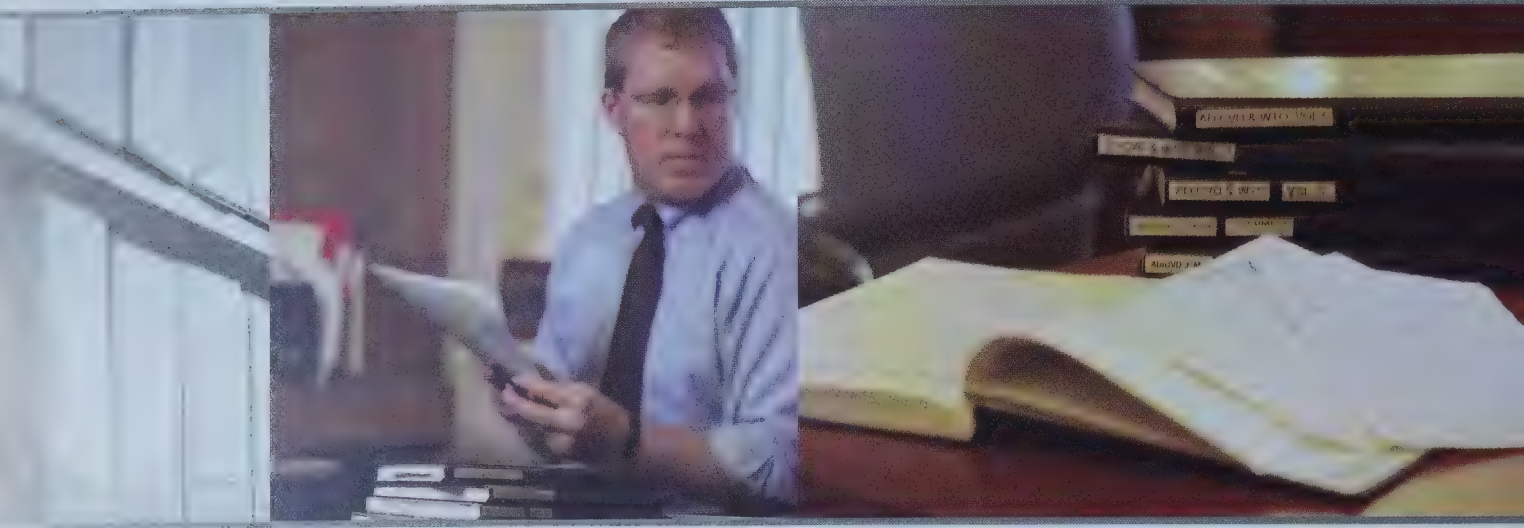
Currently the most populous country in the world, China is expected to continue growing by 12 million people each year and top out at 1.66 billion people by 2045.

"A bigger population translates into a larger potential customer base," says Bushuk. "CWB staff will continue to provide personal service to existing customers, while also cultivating new contacts."



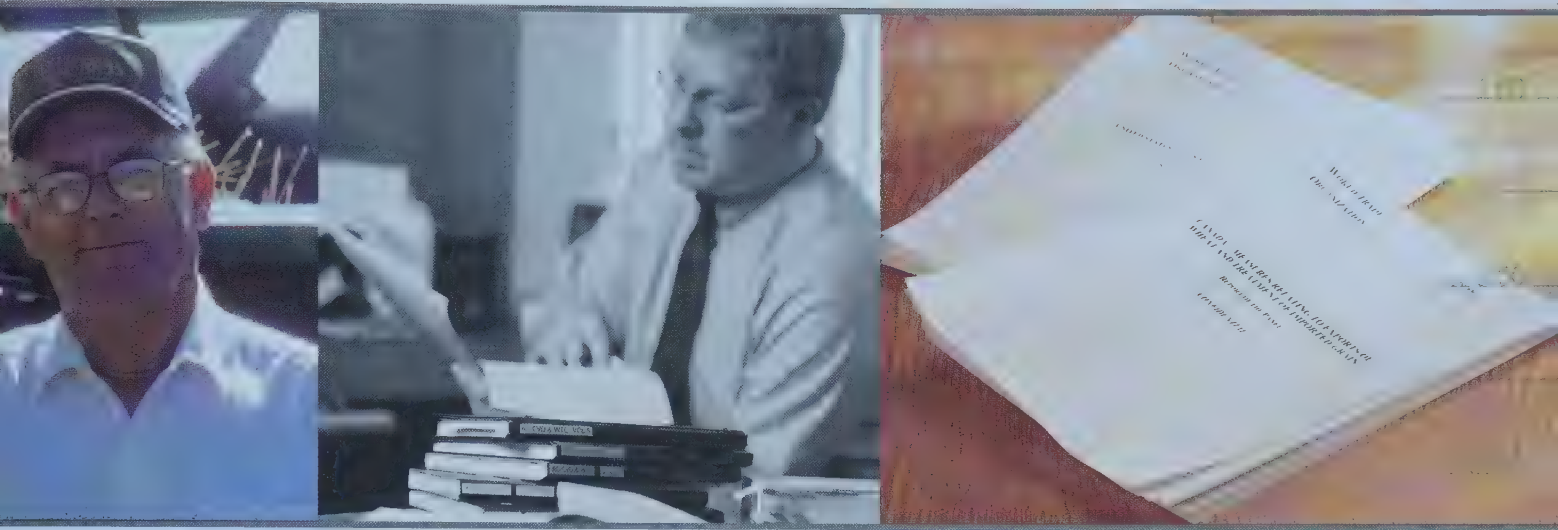
Selling 1.8 million tonnes of western Canadian grain to China...

all in a day's work.



Fighting for farmers' trading rights

[illegible] black notebooks stacked on the desk that belongs to Jim McLandress, [illegible] CWB's general counsel. The 400 pages in each notebook are filled with the [illegible] handwritten notes and provide a written history of the CWB's battle [illegible] western Canadian grain farmers from the trade harassment [illegible] by the United States.



"These notebooks are the best way to keep track of the endless legal briefs, submissions, e-mails, conference calls and memos that are part of this case and the others I'm responsible for," explains McLandress. "I've written more than 2,000 pages of notes for my own reference – that doesn't include the official documents we've drafted."

The CWB's latest fight followed a request by the U.S. government that a World Trade Organization (WTO) Dispute Settlement Body (DSB) be established to investigate accusations that the CWB acted non-commercially when negotiating export sales.

The DSB's year-long investigation generated many hours of intensive work for McLandress and a team of CWB trade experts, including Victor Jarjour, vice-president of strategic planning and corporate policy; Dave Simonot, marketing manager for sales policy and planning; and Charray Dutka, policy advisor.

Larry Hill, a member of the CWB's board of directors, has also played an integral role in defending farmers' trading rights, travelling throughout the northern U.S. advocating for trading access on behalf of western Canadian farmers.

"It's a complex issue and developing a convincing argument means paying close attention to every aspect of a case," Hill explains.

Keeping a close eye on the details appears to have provided the winning key. On April 6, 2004, the WTO dispute settlement panel released a written report that exonerated the CWB from American claims of unfair trading practices.

The WTO noted that, because the CWB is controlled by western Canadian farmers, it has an incentive to maximize returns on the grain it sells. The panel also concluded the CWB does in fact act commercially, and works solely in the interest of farmers.

Unfortunately, the U.S. is a tenacious opponent. Following the initial WTO ruling, the U.S. quickly moved to appeal the decision.

"It gets a bit tiresome," explains McLandress. "The team works their tails off. We win. But, before you can blink, the U.S. comes at us again."

Final victory would have to wait another four months, as the WTO appellate body investigated the appeal. On August 30, 2004, news reached the CWB that the WTO appellate body had dismissed the U.S. appeal.

Unfortunately, the CWB's role in defending the marketing rights of western Canadian farmers doesn't end with the WTO's latest decision. The CWB will continue to press for the removal of tariffs on spring wheat entering the U.S. and for the protection of marketing rights during upcoming WTO negotiations.

"Fighting for farmers' trading rights is the cost of doing business, at least for the foreseeable future," says McLandress. "Farmers will need to continue protecting their own interests through the CWB."

Fighting to protect marketing rights...

all in a day's work.

Label it Canadian

When Jim Thompson put his telephone back in its hook, he knew he'd been part of a successful negotiation, because both sides would get something positive out of the deal.

"It's a good move for the customer and it's an excellent advertisement for western Canadian farmers," explains the CWB's senior marketing manager for domestic and export wheat products. "What more could you want in a new business venture?"

Thompson is referring to the April 2004 agreement between the CWB and ADM Milling (Canada) that will see the milling and processing giant print a newly developed CWB visual identity on bags of flour heading to Asia. The new symbol, designed by CWB graphic designer Barbara Chabih, merges wheat stalks into a maple leaf and proudly proclaims that "Canadian Wheat is Best".

"End-use customers equate 'western Canadian' with high quality, so more and more buyers of wheat and barley are interested in using that information as a marketing tool on their products," adds Thompson.

That interest extends outside of flour millers targetting commercial bakers. Producers of retail products are also tapping into the value of the western Canadian identity for end-products. CO-OP, a producer of bread mix marketed to individuals in Asian groceries, labels its bags as containing 100 per cent western Canadian wheat.

Flourbin, a British-based Internet home-baking supplier, offers customers Canada Best and Canadian Brown flour, both advertised as high-protein, high-quality ingredients that sell for a premium of up to $1.72 per kilogram.

In Poland, pasta maker Danuta hired film star Sophia Loren as spokesperson for its "Malma" line of products, which the company also advertises as being made with 100 per cent Canadian amber durum.

International beer customers too, are jumping on the 'brand'-wagon. Tsingtao beer, bottled by China's largest brewery and exported to more than 40 countries, accounts for 80 per cent of total Chinese beer exports. Tsingtao's marketing Web site highlights the fact that every bottle of beer contains at least 50 per cent Canadian malting barley.

According to Thompson, these producers are making the most of the phrase "it's what's inside that counts".

"These flour, pasta and beer makers know that end buyers equate western Canadian wheat and barley with consistently high quality," he explains. "That provides a tangible benefit to farmers because their product is in demand."

Thompson believes that products currently carrying the CWB visual identity only scratch the surface of what is possible in the future. He is presently holding discussions to have the new symbol placed on domestic flour bags and end-products.

"It may take awhile to get there, but we're starting with such a well-known, high-quality product that I have no doubt we'll be successful."

9:00

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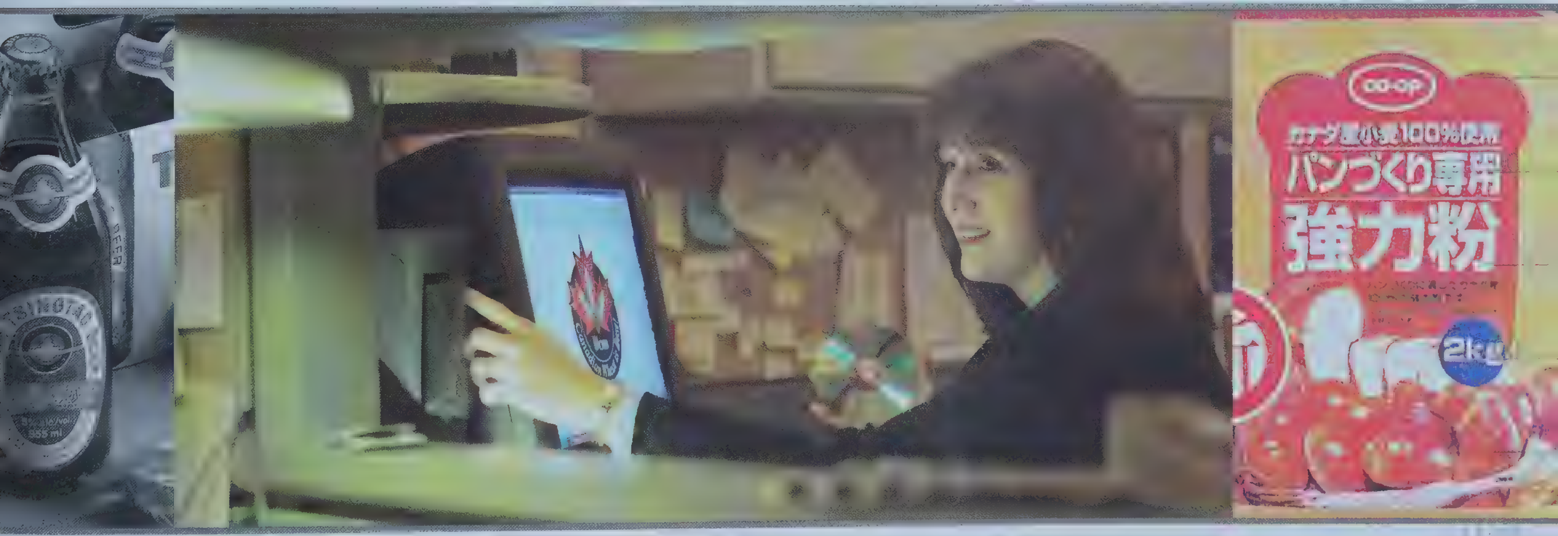

Adding value by branding it 'western Canadian'...

all in a day's work.

Corporate governance

The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and senior management.

2003-04 CWB annual report survey

We want to hear from you.

As part of our commitment to provide our stakeholders and customers with clear and relevant information, we'd like to know what you think about our annual report.

Please take a few minutes to complete this card and return it to the CWB. Your opinions are important to us and will be used for planning next year's annual report.

Overall	**(5=excellent, 1=poor)**				
Information is clear	5	4	3	2	1
Information is relevant	5	4	3	2	1
Easy to read	5	4	3	2	1

The section I found most interesting was (check one):

___ All in a day's work
___ Management discussion and analysis
___ Corporate governance
___ Financial results

I learned something new about the CWB by reading the annual report.
___ Yes
___ No

Length of content in the report
___ Overall, it was too long
___ Overall, it was too short
___ The length was just right

I would have liked to read more about: ________________

____

____

Other comments or suggestions: ________________

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I am a:
___ Farmer
___ Domestic customer
___ International customer
___ Financial company
___ Agricultural company
___ Accredited exporter
___ Federal government
___ Provincial government
___ Other

CWB

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THE CANADIAN WHEAT BOARD
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WINNIPEG MB R3C 9Z9

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: farmer, customer, mandate and corporate.

FARMER

Strategic goal: To serve farmers' business needs while significantly increasing farmer support for and trust in the CWB.

INITIATIVES

- Develop and implement the CWB customer relationship management strategy.
- Use e-business to improve farmer services.
- Strengthen farmer understanding and recognition of the value of the CWB marketing system.
- Further develop the CWB Producer Payment Options.
- Further develop CWB delivery policy.
- Continue developing CWB marketing strategy for feed barley.
- Provide new transportation and marketing services to farmers and farm interest groups.
- Assess opportunities to provide farmers with a platform (e-channel) on which they can create and store their 'farm environmental' and 'on-farm food safety' plans.
- Develop corporate performance measurement and reporting.
- Conduct a review of the corporation's business model to ensure alignment with the long-term plan and value for money.

ACHIEVEMENTS

- Developed an online advance information system for farmers and grain companies.
- Increased the number of CWB service agents to 36. Service agents provide administration, contracting and advance services to farmers.
- Offered e-contracts to grain companies.
- Implemented a full-scale Fixed Price Contract program for durum.
- Expanded the Early Payment Option to malting barley.
- Launched an Early Payment Option pilot program for durum.
- Enhanced the Fixed Price Contract programs for wheat and barley.
- Developed a strategy for two pooling periods for feed barley. Created a plan to source feed barley from farmers through Guaranteed Delivery Contracts instead of Series A, B and C delivery contracts.
- Implemented a program designed to facilitate the delivery of Alsen wheat from farmers.
- Developed and implemented corporate performance measurements and reporting on the CWB's long-term goals.
- Completed a corporate restructuring which resulted in increased efficiencies and effectiveness and ensured organizational alignment for delivery of the long-term plan.

CWB performance highlights

CUSTOMER

Strategic goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

INITIATIVES

Review quality control system to optimize its value.

Encourage an increase in supply of malting barley to meet projected trade opportunities.

Provide leadership on the issue of food safety.

Provide leadership on the issue of wheat and barley biotechnology.

Expand trade finance services.

Improve customer relations.

Enhance CWB contractual grain handling arrangements.

ACHIEVEMENTS

Expanded the database of selectable and selected malting barley to provide better information for marketing.

Held a number of malting barley forum meetings with farmers in the winter of 2003-04. Discussed agronomic management, market development for new varieties, selection and delivery contract terms and expanding market opportunities.

Attended a number of extension meetings and produced a number of articles in *Go Malting!* and *Grain Matters* to promote good management practices for malting barley.

Held consultations and focus group discussions with malting barley supply-chain stakeholders to seek agreement on implementing a payment system for malting barley that better reflects quality.

Completed successful product development tests at the Canadian Malting Barley Technical Centre in partnership with Chinese customers, then undertook a 150,000-acre production contract for CDC Copeland in order to guarantee supplies to fit expected commercial demand.

Worked collaboratively with other farm organizations to ask the Government of Canada to add a cost-benefit analysis to the regulatory decision-making process for new agricultural products.

Worked collaboratively with industry partners to complete an on-farm food safety producer manual. Defined an on-farm and post-farm food safety model for the grains, the oilseeds and special crop sector.

Developed and presented customer communications material highlighting the excellent food safety reputation that Canada currently enjoys.

Communicated a strong position regarding the potential negative effect of Roundup Ready wheat to farmers, industry and government, which contributed to Monsanto's decisions to withdraw all regulatory submissions for Roundup Ready wheat in Canada.

Continued to support the Farmer Rail Car Coalition's efforts to acquire the federal hopper cars.

Completed a successful pilot project with direct selection on producer car shipments for the CDC Copeland variety of malting barley being contracted for market development. On the basis of the positive results from this pilot project, the CWB is looking at careful expansion of direct selection through producer cars and through strategic alliances with handling companies over the next two years.

MANDATE

Strategic goal: To strengthen the long-term CWB mandate at home and its support/acceptability in international trade.

INITIATIVES

- Create stronger interface with federal, provincial and local stakeholders.
- Strengthen the CWB's position in international trade agreements.

ACHIEVEMENTS

- Created a Government Relations area to lead the way in building support for the mandate.
- Provided advice to government negotiators on several aspects of the World Trade Organization negotiations.
- Pressed the government to pursue bilateral trade negotiations in key markets.

CORPORATE

Strategic goal: To achieve excellence in the provision of human resources, financial operations, information technology and other corporate programs and services that support or advance the CWB.

INITIATIVES

- Develop and implement human resource planning.
- Fully utilize technology to facilitate efficiency, effectiveness and change.

ACHIEVEMENTS

- Developed a comprehensive, multi-year human resource strategy focused on ensuring the CWB has the people and human resource programs required to deliver the long-term plan.
- Developed and began implementation of an organization-wide core competency initiative.
- Initiated an overall review of the organization's total compensation and benefits programs.
- Completed an enterprise-wide architecture vision and framework, enabling the organization to make strategic technology decisions.
- Implemented a corporate security technical infrastructure, reducing the CWB's vulnerability to external attacks.
- Completed the first major data warehouse in the Business Intelligence Program, allowing the CWB to easily evaluate Contract Execution and Pricing Analysis (CEPA).

Pictured l. to r. (front row): Bonnie DuPont, Ross Keith, Edward Zinger, James Chatenay, Lynne Pearson, Adrian Measner, Bill Nicholson; (back row): Wilfred (Butch) Harder, Dwayne Anderson, Rod Flaman, Ken Ritter, Ian McCreary, Allen Oberg, Art Macklin, Larry Hill.

Farmer-controlled board of directors

The board of directors consists of 10 farmer-elected members and four directors appointed by the federal government for their business and financial expertise. The remaining director is the President and Chief Executive Officer (CEO), whose appointment is based on a recommendation from the board of directors. This governance structure has been in place since 1998. It places control of the CWB firmly in farmers' hands and ensures that the CWB is accountable to farmers for everything it does.

Art, along with his wife and son, operates a 1,600-acre grain and cattle farm north-east of Grande Prairie, Alberta. Art is active in both church and community, is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee.

Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

Larry farms 4,300 acres near Swift Current, Saskatchewan. He is a graduate of both Agricultural Engineering and Farm Business Management at the University of Saskatchewan and has worked for Saskatchewan Agriculture.

Ken operates a family farm near Kindersley, Saskatchewan. In addition to farming, he has practiced law and taught school in both Canada and Australia. He has been the chair of the CWB's board of directors since its inception and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board.

ALLEN OBERG (District 5)

Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. Allen has served on numerous boards throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Cooperative Association.

IAN McCREARY (District 6)

Ian was raised on the mixed farm near Bladworth, Saskatchewan that he operates today. He holds a Master's degree in Agricultural Economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian's international experience also includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank.

DWAYNE ANDERSON (District 7)

Dwayne and his wife, Sheila, operate a 2,600-acre farm in the Fosston-Rose Valley area of Saskatchewan. He served 10 years as President and CEO of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business. Dwayne was also founding chair of the Inland Terminal Association of Canada.

ROD FLAMAN (District 8)

Rod and his wife, Jeanne, farm just south of the Qu'Appelle Valley near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Educated at the University of Saskatchewan, Rod has served as a director of Terminal 22 at Balcarres, Saskatchewan and the Saskatchewan Fruit Growers Association.

WILLIAM NICHOLSON (District 9)

Bill and his family operate a 4,500-acre grain farm near Shoal Lake, Manitoba. Bill has a degree in Agricultural Engineering and has worked in the farm machinery industry. In addition to serving on the former CWB Advisory Committee, Bill has been a Manitoba Pool delegate, represented farmers on the Prairie Agricultural Machinery Institute Council and is president of his local credit union board.

WILFRED HARDER (District 10)

Wilfred 'Butch' Harder operates a 4,700-acre grain farm near Lowe Farm, Manitoba, and a 1,200-acre farm at Headingley, Manitoba. He also served on the former CWB Advisory Committee and was a director at Manitoba Pool Elevators for 12 years. As a Manitoba Pool Director, he served as director on the boards of XCAN Grain, Western Co-op Fertilizer Ltd. and the Canadian Cooperative Association.

BONNIE DUPONT (Appointed)

A group vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. She holds a Bachelor's degree in Social Work from the University of Regina with majors in Program Administration and Evaluation Psychology and a Master's in Human Resource Management from the University of Calgary.

ROSS KEITH (Appointed)

Ross is the president of a third-generation family farming operation in southern Saskatchewan. He is also president of the Nicor Group property development company and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Saskatchewan in Arts, Commerce and Law.

ADRIAN MEASNER, President and Chief Executive Officer (Appointed)

Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has 30 years of experience in the grain industry and has held a variety of positions at the CWB. He was also previously involved in a small grain farm north of Winnipeg, Manitoba.

LYNNE PEARSON (Appointed)

Lynne is the Dean of the College of Commerce at the University of Saskatchewan and past chair of the Canadian Standards Association. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne holds a Bachelor's and Master's degree in Arts and a Bachelor's degree in Journalism.

EDWARD ZINGER (Appointed)

Ed worked for the Bank of Montreal for more than 39 years. He has extensive experience in corporate, government and investment banking and is a Fellow of the Institute of Canadian Bankers. He is also a graduate of the Senior Executive Program of the Banff School of Advanced Management. Ed is currently enrolled in the Chartered Director Program.

Composition

Elected directors represent 10 electoral districts across Western Canada. *The Canadian Wheat Board Act* requires elections to be held in half of the 10 districts every two years, resulting in directors serving four-year terms. The 2004 elections were held in districts 2, 4, 6, 8 and 10 (after the close of the 2003-04 crop year).

The four appointed directors are named for three-year terms and bring a variety of business expertise to the table. The President and CEO, who leads the senior management team, is also a director. Adrian Measner was appointed President and CEO in January 2003, based on a recommendation by the board of directors.

Mandate

The board of directors is responsible for establishing strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain integrity of financial controls and oversee information services.

Results

The board of directors achieved the following results in the 2003-04 crop year:

- Corporate review – approved structural changes to corporate processes and staff composition in the interests of effective and efficient service for farmers and customers.
- Corporate performance measures – approved implementation of a new set of high-level corporate performance measures.
- Trade challenges – ensured processes were in place to respond to challenges at the World Trade Organization, challenge U.S. tariffs on spring wheat and neutralize attempts to place tariffs on durum.
- Strategic planning – approved the long-term plan as a key element of the strategic planning process over the next five years. Approved framework of a new corporate branding strategy. Approved new corporate vision and mission statements.
- Producer Payment Options – approved major improvements to Early Payment Options and Fixed Price and Basis Payment Contracts in response to farmer needs.
- Genetically-modified (GM) wheat – approved a biotechnology position statement reflecting the CWB's strategy and role in preventing the premature release of GM wheat.
- Transportation – reviewed and discussed measures to promote competition between the two national railways in the interests of lower freight rates. Provided farmer input to the House of Commons Standing Committee on Transport.
- Value-added – approved a value-added strategy to build on the growth of Canadian wheat, durum and barley processing. Provided farmer input to the Senate Standing Committee on Agriculture and Forestry.
- Innovative changes – approved a feed barley marketing strategy designed to enhance sales opportunities and send better price signals to farmers. Ensured plans proceed to provide more e-business options. Approved the addition of a domestic medium-term note program to enhance and diversify funding sources.

Committee structure for 2003-04

The board of directors has four standing committees. In 2003-04, there was also one ad hoc committee on trade, reflecting the significance of international trade issues during this time.

Audit, Finance and Risk Committee

Mandate – This committee's primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices and reviews financial/business risk policies, plans and proposals.

Members – Larry Hill (chair), James Chatenay, Bonnie DuPont, Ian McCreary, Allen Oberg, Edward Zinger.

2003-04 accomplishments:

- Recommended approval of the financial statements and notes for the fiscal year ended July 31, 2003.
- Reviewed and recommended approval of the 2004-05 corporate budget and borrowing plan.
- Recommended approval to implement a new set of high-level corporate performance measures.
- Recommended approval to add a domestic medium-term note program to enhance and diversify CWB funding sources.
- Recommended reappointment of the external auditors.
- Approved amendments to financial risk-management policies.
- Participated in financial literacy training for directors.
- Reviewed report and annual plan for Corporate Audit Services.

Governance and Management Resources Committee

Mandate – This committee focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resource and compensation matters.

Members – Bonnie DuPont (chair), Dwayne Anderson, James Chatenay, Wilfred Harder, Bill Nicholson, Edward Zinger.

2003-04 accomplishments:

- Oversaw the process of board evaluation.
- Recommended amendments to the list of director qualifications.
- Reviewed and recommended a new employee compensation philosophy and guiding principles.
- Oversaw the corporate review process.
- Reviewed and recommended the funding policy for the employee pension plan.
- Reviewed the employee salary budget for 2004-05.
- Reviewed and proposed enhancements to the regulations governing director elections, for recommendation to the federal government.
- Recommended that the election coordinator manage a series of candidate forums as part of the 2004 director elections.
- Reviewed the director development and education program.

Strategic Issues Committee

Mandate – This committee ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Nicholson (chair), Dwayne Anderson, Rod Flaman, Wilfred Harder, Ross Keith, Art Macklin, Lynne Pearson.

2003-04 accomplishments:

- Oversaw the board's strategic planning process.
- Reviewed the 2004-05 business plan initiatives.
- Reviewed and recommended approval of payment options and pricing enhancements.
- Recommended approval of a value-added strategy to help build on the growth of Canadian wheat, durum and barley processing.
- Recommended approval of a biotechnology position statement reflecting the CWB's strategy and role in preventing the premature release of GM wheat.
- Recommended approval of a feed barley marketing strategy designed to enhance sales opportunities and send better price signals to farmers.
- Recommended approval of support for the grain research facility at the University of Manitoba and support for fusarium research.
- Recommended approval of enhancements to Pre-delivery top up program.
- Approved new committee terms of reference.

Farmer Relations Committee

Mandate – This committee reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Ian McCreary (chair), Rod Flaman, Larry Hill, Ross Keith, Art Macklin, Allen Oberg, Lynne Pearson.

2003-04 accomplishments:

- Gave direction on corporate accountability meetings and reviewed results of the meetings.
- Reviewed and gave direction on the annual report.
- Approved new committee terms of reference.
- Recommended approval of objectives for meetings with farm organizations.
- Recommended approval of industry meetings/events to be attended by directors.
- Recommended annual meetings with farm organizations.
- Reviewed the strategy for promotion of increased rail competition in the interests of lower freight rates for farmers.
- Discussed CWB response to Alberta government campaign for a test open market.
- Reviewed the government relations strategy in response to a need for an improved long-term CWB government relations presence among elected officials and bureaucrats.

Ad Hoc Trade Committee

Mandate – This committee reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfill its mandate.

Members – Larry Hill (chair), Rod Flaman, Ian McCreary, Art Macklin, Bill Nicholson, Ross Keith.

2003-04 accomplishments:

- Ensured maximum input was provided to Canadian negotiators involved in efforts to reach a new World Trade Organization (WTO) agreement on agriculture.
- Ensured appropriate representation in Geneva and Cancun during WTO agricultural trade negotiations.
- Ensured an adequate legal defence was provided to a U.S. trade challenge at the WTO (and subsequent appeal), leading to the CWB being upheld as a fair trader.
- Ensured processes were in place to lead the legal defence of U.S. Countervailing and Antidumping investigations against Canadian wheat and durum imports.
- Reviewed and recommended approval of a U.S. advocacy strategy to increase understanding of Canada's grain marketing system among U.S. farmers and politicians.
- Ensured ongoing efforts were made towards removal of the U.S. tariff on spring wheat, including NAFTA appeals.
- Ensured legal avenues were in place to successfully quash chances of a U.S. tariff on durum.

Compensation table, 2003-04 crop year

BOARD OF DIRECTORS

Director	District	Remuneration: Retainer	Remuneration: Per diems	Remuneration: Total	Attendance: Board meetings	Attendance: Committee meetings	Attendance: Industry meetings
Arthur Macklin	1	$ 20,000.00	$ 37,600.00	$ 57,600.00	8	19	47
James Chatenay	2	20,000.00	27,450.00	47,450.00	7	23	28
Larry Hill	3	28,000.00	42,875.00	70,875.00	8	25	45
Ken Ritter	4	60,000.00	41,500.00	101,500.00	8	31	61
Allen Oberg	5	20,000.00	27,650.00	47,650.00	8	19	32
Ian McCreary	6	24,000.00	30,300.00	54,300.00	8	24	51
Dwayne Anderson	7	20,000.00	24,500.00	44,500.00	8	16	36
Rod Flaman	8	20,000.00	30,800.00	50,800.00	8	20	44
William Nicholson	9	24,000.00	27,000.00	51,000.00	8	23	40
Wilfred Harder	10	20,000.00	28,350.00	48,350.00	8	16	34
Adrian Measner	A	N/A	N/A	N/A	8	N/A	N/A
Lynne Pearson	A	20,000.00	9,500.00	29,500.00	8	14	1
Edward Zinger	A	20,000.00	16,500.00	36,500.00	8	23	10
Ross Keith	A	20,000.00	13,000.00	33,000.00	8	21	5
Bonnie DuPont	A	24,000.00	15,500.00	39,500.00	8	23	11
TOTAL		**$ 340,000.00**	**$ 372,525.00**	**$ 712,525.00**			

Footnotes:

A = Appointed

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. This limit does not apply to the retainer for committee chairmanship, the communication allowance or any other item that the board specifically excludes. Directors do not participate in any corporate pension plan nor any corporate benefit plan, with the exception of travel accident and travel medical insurance. The table above includes remuneration earned in the previous crop year, but paid during 2003-04.

Senior management

The senior management team works in partnership with the board of directors to establish and implement the CWB's vision and mission. The team provides leadership to the CWB, driving the successful implementation of the annual and long-term plans of the organization.

Corporate restructuring was undertaken during this crop year to improve efficiency and to establish a more flexible organization. Changes included those reporting directly to the CEO. In particular, the Corporate Audit function now reports to the Chief Financial Officer and the Legal function now reports to the Executive Vice-President, Corporate Services. With these changes, the senior management team is comprised of the Executive Team, the Vice-Presidents, the Director of Product Development and Marketing Support, General Counsel, and Corporate Secretary. During this crop year there was one resignation at the Vice-President level, with no replacement for this position.

SENIOR MANAGEMENT COMPENSATION

	2003-04 Actual	2002-03 Actual
Salaries	$ 2,454,359	$ 2,372,811
Benefits	1,289,855	1,256,934
Total	**$ 3,744,214**	$ 3,629,745

Senior management is compensated in accordance with policies approved by the board of directors. In keeping with the CWB Information Policy and in a desire to be open and accountable to farmers, the following table sets forth compensation earned by the President and Chief Executive Officer, as well as the four other highest-paid senior officers for the year ended July 31, 2004.

EXECUTIVE TEAM

[illegible]
President and CEO

[illegible]
Chief Operating Officer

[illegible]
Chief Financial Officer

[illegible]
EVP Corporate Services

[illegible]
VP Human Resources

SENIOR MANAGEMENT

[illegible]
VP Corporate Communications

[illegible]
Chief Information Officer

[illegible]
Corporate Secretary

[illegible]
VP Strategic Planning and Corporate Policy

[illegible]
Corporate Controller

[illegible]
General Counsel

[illegible]
Treasurer

William Spafford
VP Marketing

[illegible]
VP Farmer Relations and Operations

[illegible]
Director Product Development and Marketing Support

SUMMARY COMPENSATION TABLE [illegible]

Name and principal position	Annual compensation	
	Salary[2]	All other compensation[1]
Adrian Measner President and Chief Executive Officer	$260,000	-
Ward Weisensel Chief Operating Officer	205,000	-
Gordon Menzie Chief Financial Officer	193,379	-
William Spafford Vice-President, Marketing	186,486	-
Margaret Redmond Executive Vice-President, Corporate Services	175,950	-

Notes:

1 The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

2 Represents a return to normal salary levels after a five-per-cent salary reduction and a freeze in annual salary increases, which were in place during the previous crop year.

Management discussion and analysis

The CWB is a farmer-directed marketing organization that sells four crops on behalf of western Canadian farmers. These are wheat, durum, designated barley and feed barley. All revenue generated from the sale of these four crops (less marketing expenses) is pooled by crop throughout the year and returned to farmers based on deliveries. The following discussion reviews the CWB's supply situation, the global marketing environment, marketing strategy and results for the 2003-04 crop year. The CWB's indirect income and expenses, Producer Payment Options (PPOs), credit sales, funding and commodity and financial risk management activities are also reviewed. The financial statements and accompanying notes follow.

General crop conditions

In general, the 2003-04 crop year was average in terms of grain produced and above average in terms of quality. Following two consecutive years of widespread drought throughout the Prairies, the 2003-04 crop year was marked by improved soil moisture levels. A combination of rains in the fall of 2002 and normal to above-normal winter precipitation greatly improved western Canadian planting conditions. However, the situation worsened over the course of the growing season, as the southern Prairies received less than 50 per cent of normal precipitation in July and August and the northern areas received less than 75 per cent of normal precipitation. Timely rains in northern Alberta and northwestern Saskatchewan over the summer months helped maintain crop potential. Warm, dry weather during the summer months promoted grasshopper development and caused significant damage to the crop throughout the Prairie region. The dry conditions did have some positive effects: plant diseases were kept in check, with leaf and head diseases reported at the lowest levels in a decade.

Dry harvest weather meant that over 80 per cent of the crop was harvested by the first week in September and resulted in one of the highest-quality crops ever produced. About 90 per cent of the spring wheat and durum graded No. 1 and No. 2. High protein content in malting barley kept selection rates at about 30 per cent, in line with the long-term average. Western Canada's cereal and oilseed production rebounded to average levels in 2003, despite the extremely dry growing conditions experienced in some parts of the Prairies over the summer months. Total non-durum wheat production for Western Canada jumped from 10.7 million tonnes in 2002-03 to 16.8 million tonnes in 2003-04. Spring wheat production rose from 10.3 million tonnes to 16.1 million tonnes; durum production increased from 3.9 million tonnes in 2002-03 to 4.3 million tonnes in 2003-04 and barley production nearly doubled from 6.4 million tonnes in 2002-03 to 11.4 million tonnes in 2003-04.

The CWB set an export shipping target of more than 16 million tonnes of western Canadian wheat, durum and barley in 2003-04 – levels almost double that of the previous year, reflecting production recovery from the drought. Final calculations show that a total of 15.9 million tonnes (excluding products) were shipped to over 70 different countries. With 18.4 million tonnes of receipts, total sales revenue from both export and domestic markets climbed to $4.1 billion, up from $3.3 billion a year ago.

The wheat pool

	2003-04	2002-03
Receipts (tonnes)	12 375 988	8 696 221
Revenue (per tonne)	**$ 226.91**	$ 238.79
Direct costs	**21.16**	24.02
Net revenue from operations	**205.75**	214.77
Other income	**7.89**	11.26
Net interest earnings	**3.22**	4.54
Administrative expenses	**(3.67)**	(4.03)
Grain industry organizations	**(0.10)**	(0.13)
Earnings for distribution	**$ 213.09**	$ 226.41

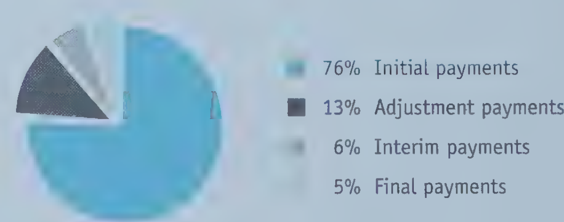
THE MARKET ENVIRONMENT

The combined effects of global wheat production falling to its lowest level since 1995-96 and the re-emergence of China as a major importer helped world wheat prices rebound from low levels seen near the end of the 2002-03 crop year. Although U.S. wheat supplies began to increase from the tight levels experienced in 2002-03, global stocks continued to shrink. Skyrocketing corn and soybean prices, along with concern over the quality of the new U.S. hard red winter wheat crop and the potential for reduced North American spring wheat seeded acreage helped U.S. wheat prices reach their peak in the spring of 2004. Prices in the medium- and lower-quality wheat segments were supported by excessive winterkill and drought throughout Europe and the Former Soviet Union (FSU), which caused wheat production in this exporting region to fall from a record 233 million tonnes in 2002-03, to a 20-year low of 177 million tonnes. After devastating droughts in 2002-03, production in North America returned to a more average level, while Australia produced a record crop of 25 million tonnes. Larger spring wheat yields in North America and excellent harvest conditions meant a substantial increase in supplies of high-grade, high-protein wheat, compared to the previous year. Prices fell sharply through the summer of 2004, as it became apparent that the world was about to produce record wheat and corn crops.

Market volatility was a notable feature in 2003-04, with Minneapolis nearby wheat prices ranging from a low of $3.44US per bushel to a high of $4.52US per bushel. Another notable feature was the record ocean freight rate environment. Ocean freight rates that were double, even triple normal levels were common throughout the year as an economic boom in China and increased Asian demand for coal caused a massive surge in demand for raw bulk materials and limited the availability of bulk freight capacity. This had a negative impact on pool returns, as Canada faced an even larger freight disadvantage to most destinations.

EARNINGS DISTRIBUTED TO FARMERS

Wheat 2003-04



THE STRATEGY

In order to manage market volatility, the CWB sells grain throughout the year. Not only does this approach assist in the management of price risk and uncertainty, but it also serves to match logistical constraints with producer delivery requirements and customer buying patterns. The CWB uses an integrated sales and risk management approach for the wheat pool, which effectively facilitates staged marketing from the time the crop is seeded, through harvest of the following year. It also creates the flexibility to take advantage of periodic market opportunities that arise.

As with every year, the customer mix was optimized to maximize revenue, subject to logistical, market and crop conditions. This year, efforts were focused on maximizing sales to high-grade buyers who were willing to pay for protein, to take advantage of the premium-quality crop produced. The 2002-03 year ended with extremely tight carry in stocks, but the early harvest allowed new crop shipments to reach customers a bit earlier than usual. Unfortunately, the application of import tariffs on Canada Western Red Spring (CWRS) wheat going to the U.S. effectively closed this lucrative quality-conscious market, forcing a larger portion of western Canadian supplies into offshore markets.

THE DELIVERIES

Delivery opportunities for wheat varied depending on the grade and class, but were generally evenly distributed throughout the crop year. All of the wheat committed to the Series A, B and C contracts was accepted. By mid-December, 50 per cent of the Series A contracts for CWRS had been called. Strong early movement was seen on Canada Western Red Winter (CWRW) wheat, with 100 per cent of Series A contracts being called by early September. Early movement for Series A contracts was also seen on Canada Prairie Spring Red (CPSR) wheat, Canada Prairie Spring White (CPSW) wheat and Canada Western Extra Strong (CWES) wheat. As usual, movement of Canada Western Soft White Spring (CWSWS) wheat was evenly spread throughout the year, reflecting domestic demand. Deliveries of all non-durum wheat to the pool totaled 12.4 million tonnes, up from 8.7 million tonnes the previous year.

THE RESULTS

A total of 10.6 million tonnes was sold to offshore customers in the 2003-04 crop year, up from almost 6.4 million tonnes in 2002-03. The domestic market was once again the largest volume customer, buying 1.7 million tonnes of non-durum wheat in 2003-04. This was down from 2.2 million tonnes in 2002-03, primarily due to improved extraction rates and to a lesser extent, the impact of low-carbohydrate diets. The re-emergence of China as a major importer of high-grade, high-protein wheat fit extremely well into the crop mix and helped offset the loss of the high-grade, high-protein U.S. market. In 2003-04, China bought 1.7 million tonnes, up from the previous year's total of 163 000 tonnes. Japan's purchases were also up in 2003-04, reaching 1.013 million tonnes, compared to 997 000 tonnes the previous year. Just 270 000 tonnes of wheat were sold to the Philippines in 2002-03, due to the reduced supplies of high-grade, high-protein wheat that year. However, efforts to increase market penetration in this region were successful in 2003-04, with 705 000 tonnes sold in 2003-04. Sales to Mexico, the CWB's fifth largest customer, totaled 682 000 tonnes, up from 607 000 tonnes the previous year.

With ocean freight rising to record levels, Cost & Freight (C&F) sales nearly tripled from 113 000 tonnes to 325 000 tonnes and captured more value on behalf of farmers. The direct rail program was expanded for Mexico (647 000 tonnes moved, compared to 319 000 in 2002-03) and Caribbean destinations (249 000 tonnes moved, compared to 54 000 tonnes in 2002-03).

LARGEST VOLUME WHEAT CUSTOMERS

(2003-04 and 2002-03 sales in 000 tonnes)*

*Comparable graphs in previous annual reports represented crop year shipments, not pool year sales; sales for product exports captured in final destination country.

The wheat pool returned just over $2.8 billion in gross revenues on 12.4 million tonnes of receipts, or an average gross revenue of $226.91 per tonne, down from the average of $238.79 per tonne the previous year. Although the quality profile of the pool was much higher than the previous year, spring wheat prices were also a bit lower than those in 2002-03, due to abundant supplies in both the U.S. and Canada. The final pool returns for No. 1 CWRS with 13.5-per-cent protein (net of all costs) yielded $211 per tonne in store Vancouver/St. Lawrence, compared to $250 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent was $5 per tonne, compared to $9 per tonne the previous year, due to the relatively abundant world supplies of high-grade, high-protein wheat. Final pool returns for No. 3 CWRS and CPSR held up relatively better, falling about $25 per tonne compared to a year ago, to $190 per tonne and $186 per tonne, respectively. This was a result of the limited competition from Europe and the Commonwealth of Independent States (CIS) in the medium-quality segment of the world wheat market.

DIRECT COSTS

Direct costs decreased $2.86 per tonne to $21.16, primarily due to lower inventory storage and financing, the income effect of inventory adjustments and other direct expenses offset slightly by higher terminal handling costs. More specifically:

- Increased efficiencies in the system resulted in a decrease in total average inventory levels during the year, offset by a slightly higher average per-tonne storage rate. Financing costs decreased due to a combination of decreased inventory levels, initial payment value and interest rates.
- Inventory adjustments resulted in an overall net revenue to the pool as a result of the impact of previous year's activities and current-year projections of blending activity.
- Other direct expenses have decreased due to sales contract cancellation costs incurred during 2002-03, not recurring in 2003-04.
- Terminal handling increased as a result of an overall larger export program.

OTHER INCOME

Other income decreased $3.37 per tonne to $7.89, due primarily to the effect of an overall increase in pool size.

DISTRIBUTION OF INCOME

The average sales proceeds available for distribution decreased six per cent or $13.32 per tonne to $213.09. Of the amounts returned to pool participants, 89 per cent was distributed by May 19, 2004 in the form of initial and adjustment payments. A further six per cent, or $11.80 per tonne, was distributed as an interim payment on October 5, 2004.

Producer Payment Options, like the Fixed Price (FPC) and Basis Payment (BPC) Contracts, are designed to operate independently of the pool and therefore do not impact the pool's net results.

Just under $32.4 million of sales returns were paid from the wheat pool to the Producer Payment Options program, representing the return on the specific grades and classes of wheat delivered under the FPC and BPC. The payment options program in turn paid farmers at the respective contracted price under the program.

The durum pool

	2003-04	2002-03
Receipts (tonnes)	3 079 664	3 803 596
Revenue (per tonne)	**$ 250.46**	$ 278.89
Direct costs	**25.69**	26.16
Net Revenue from operations	**224.77**	252.73
Other income	**4.99**	1.89
Net interest earnings	**2.79**	2.24
Administrative expenses	**(3.67)**	(4.03)
Grain industry organizations	**(0.10)**	(0.13)
Earnings for distribution	**$ 228.78**	$ 252.70

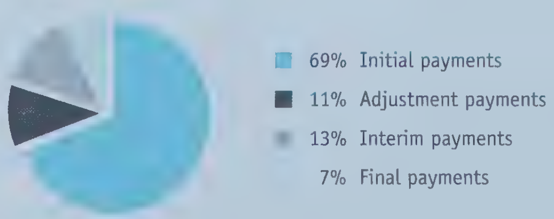
THE MARKETING ENVIRONMENT

With global durum production increasing by three million tonnes to a record 37.6 million tonnes in 2003-04, global durum prices were weaker than the previous year. Bumper crops in the key importing region of North Africa caused imports into this region to fall from their typical levels of 3.1 million tonnes to just 2.2 million tonnes, largely due to a reduction in Algerian demand. Fortunately, import demand picked up elsewhere, with total durum trade only falling 0.2 million tonnes to 6.4 million tonnes. Drought in 2003 reduced the European Union's (EU) durum supplies and boosted import demand. CWB durum sales into this region were aided by new-crop quality concerns in Italy, Greece and Spain early in the summer of 2004, which created another demand wave and ultimately helped triple the EU import program compared to 2002-03. Durum trade resumed with the U.S. after a hard-fought victory by Canada in the U.S. Countervailing and Antidumping investigations was confirmed in the fall of 2003. Venezuelan durum demand also recovered, as buyers looked to replenish low stocks after the government relaxed their limits on access to foreign currency. At the same time, price subsidization of pasta also boosted consumption.

The quality profile of the North American crop was exceptional; the best in over a decade. This kept pressure on the high-grade, high-protein prices relative to lower grades, which were comparatively scarce. Reduced competition from the EU, Syria and Turkey minimized the effects of record high ocean freight rates on the 2003-04 durum market.

EARNINGS DISTRIBUTED TO FARMERS

Durum 2003-04



THE STRATEGY

As with spring wheat, one of the biggest challenges faced by the CWB was matching the customer mix to the available supply of high-grade, high-protein durum. There were some lower-grade carry in stocks from the previous year, which helped round out the grade profile. However, with approximately 90 per cent of the durum reaching the top two grades, efforts were focused on increasing market penetration in medium- and high-quality demand segments in markets, such as the EU, the U.S., Morocco, Algeria and Venezuela.

THE DELIVERIES

Due to prospects for weaker global import demand and much larger supplies of high-grade, high-protein durum, the CWB announced in November 2003 that only 70 per cent of the durum sign-up on the Series A contract would be accepted. Nothing was accepted on the Series B contract. Stronger-than-expected demand resulted in a 25-per-cent acceptance level on the Series C contract. In total, the CWB accepted 78 per cent of the durum offered on contracts by farmers. Delivery opportunities were evenly distributed throughout the crop year. Total deliveries to the pool were three million tonnes, down from 3.8 million tonnes in 2002-03.

THE RESULTS

On a July-to-June shipping basis, the CWB's market share of the world bulk durum wheat trade expanded to about 52 per cent in 2003-04, compared to 45 per cent a year earlier. This was largely due to the CWB's success in boosting market penetration in Europe and Morocco, which ultimately helped to offset the sharp reduction in Algerian import demand. About two-thirds of the Latin American and EU demand was captured, up from 57 per cent and 31 per cent, respectively, the previous year.

Over 2.87 million tonnes was sold to offshore markets this year. Sales to Italy totaled 704 000 tonnes, up from 349 000 tonnes in 2002-03. Sales to Morocco totaled 455 000 tonnes, up from 330 000 tonnes. Sales to Algeria, Venezuela and Canada rounded out the top five customers, taking 359 000 tonnes, 324 000 tonnes and 260 000 tonnes, respectively.

Drought conditions in Mexico allowed for sales opportunities in a country that is typically an export competitor. Regaining access to the U.S. durum market played an important part in marketing this year's high-grade, high-protein crop. However, the U.S. International Trade Commission decision on potential tariffs on Canadian durum moving into the U.S. was not released until October 2003, well into the marketing year, which prevented the CWB from accessing this market earlier.

The durum pool returned just over $771 million in gross revenues on three million tonnes of receipts, or an average of $250.46 per tonne, down from the average of $278.89 per tonne the previous year. Final pool returns for No. 1 Canada Western Amber Durum (CWAD) wheat with 13.0 per cent protein fell by almost $50 per tonne compared to a year ago, to $228 per tonne in store Vancouver/St. Lawrence. The protein spread between 11.5 per cent and 13.0 per cent was about $4 per tonne, compared to almost $7 per tonne a year ago. The final pool return for No. 3 CWAD held up relatively better, only falling about $30 per tonne to $209 per tonne, due to relatively tight supplies.

LARGEST VOLUME DURUM CUSTOMERS

(2003-04 and 2002-03 sales in 000 tonnes)*

*Comparable graphs in previous annual reports represented crop year shipments, not pool year sales; sales for product exports captured in final destination country.

DIRECT COSTS

Direct costs decreased by $0.47 per tonne to $25.69 due primarily to lower freight, offset by a decrease in the income effect of inventory adjustment demotions. More specifically:

- Terminal handling decreased with the smaller pool size.
- During the year, a net demotion of durum stocks was reported. With the 2004 harvest complete and some high-quality durum available, the projection is for promotions to occur and offset the demotions. The 2002-03 crop had a poorer grade pattern than the 2003-04 crop and, consequently, reflected a significant grade demotion.

OTHER INCOME

An increase in sales to the U.S. and Mexico resulted in an increase in rail-freight recovery, one of the main components of other income. Rail-freight recovery is the recovery from CWB agents of the freight deducted from cash tickets where the grain was shipped to destinations other than terminal locations. Typically, a significant volume of durum is sold to or through the U.S. and, therefore, is not railed to terminal position, resulting in substantial recoveries.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution decreased nine per cent or $23.92 per tonne to $228.78. Of the amounts returned to pool participants, 80 per cent was distributed by May 19, 2004 in the form of initial and adjustment payments. A further 13 per cent, or $30.29 per tonne, was distributed as an interim payment on October 5, 2004.

For producer receipts delivered under the FPC program, $108,100 was paid from the pool to the program, representing the final pool return on the specific grades delivered to the durum pool under the FPC program. The payment options program in turn paid farmers at the respective contracted price under the program.

The designated barley pool

	2003-04	2002-03
Receipts (tonnes)	2 138 365	891 433
Revenue (per tonne)	**$ 191.24**	$ 219.70
Direct costs	**9.48**	10.82
Net revenue from operations	**181.76**	208.88
Other income	**22.25**	30.66
Net interest earnings	**.84**	1.52
Administrative expenses	**(3.67)**	(4.03)
Grain industry organizations	**(0.13)**	(0.25)
Earnings for distribution	**$ 201.05**	$ 236.78

THE MARKETING ENVIRONMENT

A record Australian barley crop, combined with a sharp increase in ocean freight rates and weak U.S. and Chinese import demand, kept pressure on North American malting barley prices for most of the year. Although the EU also produced significant supplies of malting barley in 2003-04, its strong domestic feed-grain market and larger Eastern European import demand reduced the competitive pressures in Asia and Latin America. In fact, the impact of the EU's feed grain deficit spilled onto the world markets and resulted in a very narrow spread between feed barley and malting barley.

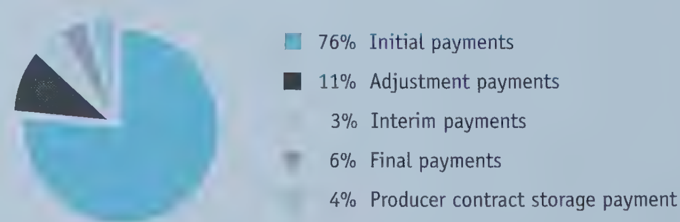
After drought and poor harvest weather sharply lowered Canada's export surplus in 2002-03, a recovery in yields and excellent harvest conditions boosted the production of malting barley in Western Canada. The U.S. market – particularly six-row demand – was fairly quiet in 2003-04, with a much larger and better quality domestic crop. China's import program got off to an extremely slow start due to a larger crop, increased use of adjunct and large carry-in supplies. However, China's import pace did eventually return to normal in the latter half of the year, resulting in imports of 1.5 million tonnes compared to two million tonnes the previous year.

THE STRATEGY

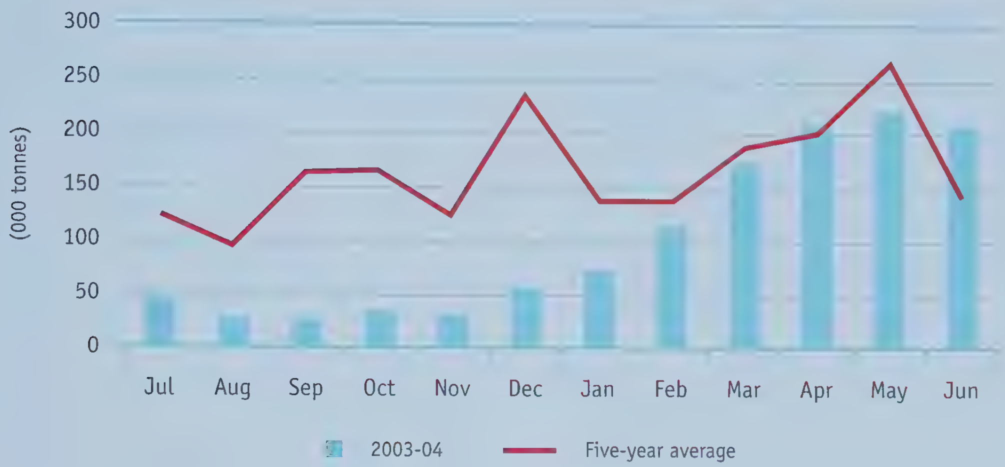
With considerable uncertainty in the 2003-04 Chinese import program, especially at the start of the year, efforts were focused on increasing penetration in other markets, especially those close to Canadian shores, due to the high ocean freight rate environment. Although the CWB attempts to frontload the malting barley export program to take advantage of the seasonal demand window prior to the arrival of Australian new crop supplies, the slow start to the Chinese program led to a later sales program than would normally be the case. With widespread market acceptance for AC Metcalfe and Kendall, market development efforts shifted to increase acceptance of CDC Copeland, particularly in China. As in all pools, the CWB's objective was to minimize the impact of record-high ocean freight in order to maximize returns to growers.

EARNINGS DISTRIBUTED TO FARMERS

Designated barley 2003-04



CHINA'S MONTHLY MALTING BARLEY IMPORTS



THE DELIVERIES

Two-row delivery opportunities were relatively evenly spread through the year as the slow start to the Chinese import program was a dominant feature with respect to overall malting barley movement. Six-row delivery opportunities were somewhat limited due to lower than normal U.S. import requirements. The total pool receipts this year were 2.14 million tonnes, up from just over 891 000 tonnes the previous year.

THE RESULTS

A total of 1.06 million tonnes were sold to Canadian domestic maltsters, compared to 728 000 tonnes the previous year. The largest consumer of Canadian malting barley (bulk grain and malt) was the United States, which purchased 511 000 tonnes, compared to 268 000 tonnes the previous year. China was the second-largest customer, purchasing 427 000 tonnes in 2003-04, up from 43 000 tonnes in the 2002-03 pool.

Canadian maltsters purchased 369 000 tonnes of bulk malting barley for use in the domestic market, compared to 370 000 tonnes the previous year. Malt sales to Japan recovered to a more normal level due to increased availability compared to 2002-03. Strong market development efforts in previous years and the reduced competition from the EU allowed the CWB to increase market penetration in Latin America and South Africa – in fact, Canadian malting barley is now the preferred choice in these areas.

LARGEST VOLUME DESIGNATED BARLEY CUSTOMERS

(2003-04 and 2002-03 sales in 000 tonnes)*

* Comparable graphs in previous annual reports represented crop year shipments, not pool year sales; sales for product exports captured in final destination country.

The CWB dramatically increased the volume of container shipments of malting barley in 2003-04. Container freight rates did not increase to the same extent as bulk ocean freight. In total, 110 000 tonnes of designated barley was shipped via container in 2003-04. Of this, the CWB moved 44 000 tonnes directly, with the rest being shipped through accredited exporters. Savings over bulk shipment costs ranged from $5-$15US per tonne. The container volume in 2002-03 was negligible. The CWB continues to charter its own ocean freight where this would add value. Total cost and freight (C&F) sales in 2003-04 increased to over 154 000 tonnes from 1 600 tonnes in 2002-03 and 144 000 tonnes in 2001-02.

The designated barley pool returned almost $409 million in revenues on 2.1 million tonnes of receipts, generating an average gross revenue of $191.24 per tonne, down from the average of $219.70 per tonne the previous year. Final pool returns for Special Select Two-row barley in store Vancouver/St. Lawrence yielded $200 per tonne, compared to $242 per tonne a year ago. Final pool returns for Special Select Six-row barley yielded $186 per tonne, compared to $223 a year earlier.

The No. 1 Canadian Western Feed versus Special Select Two-row barley spread narrowed from $77.48 per tonne in 2002-03 to $32 per tonne, compared to the three-year average of $46.57 per tonne.

DIRECT COSTS

Direct costs decreased $1.34 per tonne to $9.48, primarily due to reduced grain purchases and other direct expenses, offset by an increase in ocean freight costs. More specifically:

- A significant decrease in other grain purchases compared to 2002-03 where substantial inventory overages were recorded.
- The 2003-04 crop year reflected normal levels of late receipts compared to the 2002-03 crop year, when a large volume of producer receipts was received subsequent to the prior crop year's end date, which were accepted due to contractual commitments.
- Extremely high ocean freight rates, driven by a period of unprecedented ocean freight demand, resulted in overall higher ocean freight costs, as a significant proportion of the pool was exported.

OTHER INCOME

The decrease in the per-tonne value of other income is due primarily to the recovery of the rail freight on cash-ticket deductions for grain that was not shipped through terminal position and the impact of a larger pool size.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution decreased 15 per cent, or $35.73 per tonne, to $201.05. Of the amounts returned to pool participants, 87 per cent was distributed by May 19, 2004, in the form of initial and adjustment payments. A further three per cent, or $6.81 per tonne, was distributed as an interim payment on October 5, 2004. In addition, four per cent, or $7.47 per tonne, was distributed as producer contract storage payment.

The feed barley pool

	2003-04	2002-03
Receipts (tonnes)	844 024	39 698
Revenue (per tonne)	**$ 174.87**	$ 168.28
Direct costs	**9.75**	16.90
Net revenue from operations	**165.12**	151.38
Other income	**0.61**	6.35
Net interest earnings	**6.98**	137.70
Administrative expenses	**(3.67)**	(4.03)
Grain industry organizations	**(0.10)**	(0.13)
Earnings for distribution	**168.94**	291.27
Transferred to contingency fund	**0.00**	127.89
Earnings distributed to pool participants	**$ 168.94**	$ 163.38

THE MARKETING ENVIRONMENT

Despite a larger global barley crop and weaker import demand, global feed barley prices actually increased during the summer months of 2003, as drought and winterkill drastically reduced exportable surpluses across Europe and Ukraine. Extremely tight carry-in stocks in Australia, Canada and the U.S. were also supportive. In the early months of 2004, world barley prices began to weaken, as the market reacted to the record barley crop in Australia. With the help of strong exports from Russia and stable exports from Kazakhstan, the Commonwealth of Independent States (CIS) still represented about 40 per cent of global feed barley trade, down from 49 per cent the previous year. Import demand fell about 1.6 million tonnes to 12.3 million tonnes, due to large crops in North Africa. Demand from the Middle East remained firm at about 8.7 million tonnes, as slightly lower demand in Saudi Arabia was offset by increased imports into Iran, Turkey and Jordan. With Canadian domestic feed demand and prices under pressure due to the Bovine Spongiform Encephalopathy (BSE) crisis, and the absence of Europe supporting offshore values, Canada was a significant participant in the world feed barley market.

Another factor affecting the global feed barley market was a sharp rise in ocean freight rates. This limited the upside in Pacific Northwest feed barley prices by increasing Canada's freight disadvantage compared to exporters in Europe, CIS and Australia in servicing the core feed demand regions of the Middle East and North Africa. A record U.S. corn crop in 2003-04 was also a negative influence on the world feed grain market. Prospects for a much larger world barley crop in 2004-05 (mostly due to a recovery in Europe and CIS) and larger feed wheat supplies put significant pressure on offshore feed barley prices in the second half of 2004.

EARNINGS DISTRIBUTED TO FARMERS

Feed barley 2003-04

- 62% Initial payments
- 26% Adjustment payments
- 5% Interim payments
- 7% Final payments

THE STRATEGY

A primary objective of the CWB feed barley strategy was to book export sales early to take advantage of the strong prices seen early in the year when competition was limited. With an early harvest and a favourable domestic versus offshore price spread, the CWB secured supplies from farmers through the Guaranteed Delivery Contracts and was able to sell a large portion of the pool before the full impact of Australia's large new crop was felt.

THE DELIVERIES

Almost 4,500 farmers contracted 883 228 tonnes through the five Guaranteed Delivery Contract (GDC) programs offered in 2003-04. The bulk of the volume from the GDC programs was signed up for delivery in the first half of the year, which allowed the CWB to capture the higher prices experienced early in the marketing season.

By comparison, only 50 000 tonnes were signed up under all three series contracts outside the GDC programs. All of the Series A contract was called by the beginning of December. The total pool receipts were 844 024 tonnes, up from just under 40 000 tonnes a year ago.

THE RESULTS

Securing supplies through the GDC programs allowed the CWB to take advantage of demand arising during the window of limited European, Black Sea and Australian export competition. More than half of the CWB's export program was sold by mid-September at some of the highest Pacific Northwest barley prices seen during the entire year. Out of almost 844 000 tonnes of feed barley sold in 2003-04, Saudi Arabia bought 561 000 tonnes, while Japan purchased 259 000 tonnes. Of the total sold in 2002-03, 33 000 tonnes went to Canada and Japan.

In total, the feed barley pool returned almost $148 million in gross revenues on 844 024 tonnes of receipts, or an average of $174.87 per tonne, up from the average of $168.28 per tonne the previous year, despite a small drop in the simple average Pacific Northwest price. Final pool returns for No. 1 Canada Western feed barley in store Vancouver/St. Lawrence yielded $169.21 per tonne, compared to $164.11 per tonne a year ago, making 2003-04 the third-highest pool return for feed barley in more than 20 years.

LARGEST VOLUME FEED BARLEY CUSTOMERS

(2003-04 and 2002-03 sales in 000 tonnes)*

*Comparable graphs in previous annual reports represented crop year shipments, not pool year sales.

DIRECT COSTS

The small pool size experienced in 2002-03 caused greater volatility in the per-tonne rate calculated. As such, direct costs show a $7.15 decrease to $9.75, primarily due to reduced terminal handling, inventory storage and country inventory financing. More specifically:

- Terminal handling declined as a greater proportion of the total receipts moved through terminal, thereby reducing the per tonne cost.
- Efficiencies of the system were captured with larger volumes, resulting in a decline in inventory storage costs and country inventory financing.

OTHER INCOME

The decrease in the per tonne value of other income was primarily attributed to decreased rail-freight recovery. Rail-freight recovery is the recovery from CWB agents of the freight deducted from cash tickets where the grain was shipped to destinations other than terminal locations. The 2003-04 sales program was primarily for export movement, resulting in minimal rail-freight recovery compared to the 2002-03 sales program, which was domestically driven.

DISTRIBUTION OF EARNINGS

The average sales proceeds available for distribution increased three per cent, or $5.56 per tonne, to $168.94. Of the amounts returned to pool participants, 88 per cent was distributed by May 19, 2004 in the form of initial and adjustment payments. A further five per cent, or $8 per tonne, was distributed as an interim payment on October 5, 2004.

Indirect income and expenses

ADMINISTRATIVE EXPENSES

With the goal of providing better service to farmers and reducing administrative costs, the CWB announced a corporate-wide restructuring in early 2004. The announcement was the result of an eight-month-long corporate review, which focused on positioning the CWB as an efficient and economical marketing agency, ready to successfully meet the marketing needs of farmers as it moves into the future. The review, which formally began in April 2003, involved the thorough evaluation of all CWB products, services and processes to determine how well they reflected the CWB's future direction. After determining the CWB's essential operational requirements, adjustments to the organizational structure and staffing requirements were identified, as well as opportunities to improve consistency and efficiency. The impact of the review resulted in one-time costs of approximately $4.3 million, of which $3.5 million relate to human resource costs.

Administrative expenses increased $1.3 million or two per cent from the prior crop year to $68 million. This increase was primarily due to corporate review and post-employment benefit costs relating to human resources ($4.7 million) and depreciation for new capital projects ($1.6 million). Other significant increases included the resumption of normal travel, training, and advertising expenses ($1.1 million), which had previously been limited by management, due to a difficult 2002-03 crop year. Offsetting these increases was a net decrease in professional fees ($5.5 million) of which the main component is lower legal costs due to a reduction in U.S. trade challenge activity.

GRAIN INDUSTRY ORGANIZATIONS

The CWB continued to provide support for organizations that benefit, both directly and indirectly, the western Canadian grain farmer. During 2003-04, the CWB contributed a combined $ 1.8 million to the operations of the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC).

NET INTEREST EARNINGS

Net interest earnings of $56.1 million were due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers and conduct ongoing operations.
The CWB is able to borrow at interest rates lower than those extended to the credit customer. As a result, the CWB earns an interest 'spread'.

(000's)	2003-04	2002-03
Interest on credit sales		
Revenue on credit sales receivable	**$ 131,520**	$ 173,626
Expense on borrowings used to finance credit sales receivables	**78,305**	116,623
Net interest on credit sales	**53,215**	57,003
Interest revenue (expense) on pool account balances	**410**	(4,455)
Other interest		
Revenue	**5,321**	5,126
Expense	**2,821**	2,858
Net other interest revenue	**2,500**	2,268
Total net interest earnings	**$ 56,125**	$ 54,816

During periods when interest rates are trending downwards or upwards, the spread will widen or narrow because of the differences in term between the receivable and the related borrowing. The spread margin earned during the current year widened compared to 2002-03 because the CWB's borrowing interest rates decreased ahead of the date when the rescheduled lending rates were reset.

Although the spread margin widened, overall interest revenue and expense declined significantly due to lower interest rates, U.S. dollar exchange rates and reduced credit receivable balances, as countries such as Poland and Russia made sizeable repayments during the year.

The interest on the pool account balances has increased as a result of the net equity position in wheat being more favourable in 2003-04 than in 2002-03.

The most significant component of other interest revenue is interest revenue from customers due to delays in the receipt of sales proceeds on non-credit sales. Normal fluctuations will occur in the account as the number of days outstanding on these arrangements will typically range between one and 10. Expenses, primarily from financing costs, such as treasury fees and bank charges, make up the main portion of other interest expense.

Producer Payment Options

Providing farmers choice and flexibility is a priority of the farmer-controlled board of directors. Beginning in 2000-01, the board of directors introduced a number of innovative Producer Payment Options (PPOs) which, in the 2003-04 crop year, were enhanced and extended to a wider range of crops. While the PPOs offer farmers unprecedented opportunities to exercise control over the marketing of their wheat and barley, they are structured so that the viability and the integrity of the CWB pool accounts are maintained. Price pooling, which provides farmers a return that reflects sales made throughout the crop year, is an effective price risk management tool that farmers continue to value and support.

CHANGE FOR METHODOLOGY FOR CALCULATING THE BASIS IMPLEMENTED

Prior to the 2003-04 crop year, the basis component of the Fixed Price and Basis Payment Contracts was calculated as the spread between the fixed price and the relevant futures value on the date the Pool Return Outlook (PRO) was issued each month. In the previous year, farmers voiced their concerns over the volatility in the basis levels offered by the CWB. As a result of these concerns, the CWB is now calculating the basis as the PRO, less forecasted futures, less a discount for risk, time value of money and administration. This change now better reflects the returns from all pool account sales, reduces the volatility of the basis, yet allows the farmer to price his/her grain on one of three U.S. wheat futures markets at any time.

PROGRAMS

Three types of PPOs are available to Prairie farmers through the CWB.

1. The Fixed Price Contract (FPC): Introduced in the 2000-01 crop year, the FPC enables farmers to lock in a price for all or a portion of their wheat, durum or feed barley before the beginning of the crop year (August 1). The wheat FPC is comprised of the December basis plus the relevant futures price. The durum and feed barley FPC is comprised of the PRO less a discount. Program costs are entirely covered by the farmers who use it. In 2000-01, fixed prices on CWRS were offered. For 2001-02 and 2002-03, the FPC was extended to all classes of wheat and to feed barley. As well, an FPC on durum, which was developed and made available to farmers on a trial basis for 2002-03, was offered as a full-scale program in 2003-04. During the 2003-04 crop year, 379 farmers signed an FPC. They delivered 61 148 tonnes of wheat, 470 tonnes of durum, and 42 tonnes of feed barley under the FPC. The maximum value per tonne that could have been locked in under an FPC for the 2003-04 crop year was as follows:

    No.1 CWRS 13.5 per cent protein $221.98;

    No.1 CWAD 13 per cent protein $231.50; and

    No.1 CW Feed barley $135.05.

2. The Basis Payment Contract (BPC): Launched at the same time as the FPC, the BPC enables farmers to lock in the pooled basis and futures at different times during the program. When pricing their grain, farmers get the futures price that they have selected plus the basis that they locked in. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. The BPC was extended to all classes of wheat (excluding durum) for the 2001-02 crop year. In 2003-04, 336 farmers signed a BPC. A total of 97 593 tonnes of wheat were delivered under the BPC. The maximum value for No.1 CWRS 13.5-per-cent protein that could have been locked in under a BPC for the 2003-04 crop year was $242.67 per tonne.

3. The Early Payment Option (EPO): In 2001-02, the CWB introduced the EPO as a pilot program for producers of CWRW and CWSWS wheat. It had previously only been available on feed barley committed to Guaranteed Delivery Contracts. The EPO was extended to all classes of wheat (excluding durum) for the 2002-03 crop year. In 2003-04, the EPO was expanded to include durum and designated

barley with a 90-per-cent early payment value. The EPO enables farmers to receive 80 per cent (wheat and feed barley) or 90 per cent of the PRO, less a discount for risk, time value of money and administration costs at time of delivery. The 80-per-cent early payment value was added in 2003-04 to provide farmers with more cash flexibility at lower discount costs. Farmers receive the initial payment less the usual freight and elevation charges at that time. The CWB then issues an additional payment to bring the total to 80 or 90 per cent of the locked-in PRO, less the discount. Farmers are eligible for any future adjustment, interim and final payments that increase the price of these deliveries beyond the value that they have locked in. This program therefore not only serves to help farmers meet their cash flow needs but also gives them the opportunity to set a floor price for their grain. A total of 12,954 farmers signed EPO contracts, delivering 2 652 369 tonnes. The maximum value per tonne that could have been locked in under an EPO for the 2003-04 crop year was as follows:

No.1 CWRS 13.5 per cent protein $190.80;
No.1 CWAD 13 per cent protein $197.10;
No.1 CW Feed barley $143.10;
Select CW Two-row $176.40 and
Select CW Six-row $162.90.

FINANCIAL RESULTS

Once grain is delivered to the CWB for selling purposes, there is no segregation between deliveries made as a pool participant and those made under the FPC or BPC programs. Because deliveries made under the FPC and BPC are outside of the pool accounts, all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers are instead paid to the programs. In 2003-04, this amounted to $32,399,226 for wheat, $108,100 for durum and $7,107 for barley. When other revenue, such as liquidated damages, and program expenses (including net hedging activity, interest and administrative expenses) are accounted for, the FPC and BPC programs generated a combined surplus of $284,026.

There was a dramatic rise in the number of tonnes committed to EPO contracts. They rose from 130 696 tonnes in 2002-03 to 2 652 369 tonnes in 2003-04. The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $4,471,168. After accounting for liquidated damages charged for non-delivery, net interest expense, net hedging losses and storage, a surplus of $1,944,851 was generated.

The total PPO program surplus of $2,228,877 was transferred to the contingency fund at year end (see Financial Statement Note 14).

The contingency fund was established to cover deficits or surpluses that may occur as a result of the operation of the PPO programs. The fund ensures that the PPO programs will have no influence on the return that farmers receive from price pooling. While in a surplus position now, the PPO contingency fund is expected to break even over the long term. In any particular year, the fund may operate in either a surplus or deficit position, depending upon the market conditions.

Credit sales

CREDIT SALES DURING THE YEAR

(000's)	2003-04	2002-03
Agri-food Credit Facility	**$ 153,155**	$ 95,750
Credit assumed by others	**149,965**	95,750
Total credit sales	**303,120**	191,500
Total sales	**$ 4,136,168**	$ 3,339,872

CREDIT PROGRAMS

The Government of Canada provides repayment guarantees on CWB credit sales. New credit proposals are recommended by the CWB for review and approval by the government. Acting within credit limits and terms approved by the government, the CWB works with individual customers to structure credit facilities. These credit arrangements are structured according to commercial terms and can be an important factor in foreign markets. During 2003-04, credit sales totaled $303.1 million, representing 7.3 per cent of total sales compared to $191.5 million, or 5.7 per cent, of sales in the previous year. The CWB uses two credit programs:

CREDIT GRAIN SALES PROGRAM (CGSP)

The CGSP was established to facilitate CWB grain sales made on credit to customers who can provide a sovereign guarantee of repayment from their central bank or ministry of finance. During the year ended July 31, 2004, there were no grain sales under the CGSP program (there were also none the previous year).

The balance receivable at July 31, 2004 was $5.2 billion. Of this amount, $4.4 billion represented receivables, where payment of principal and interest has been rescheduled over periods ranging from five to 25 years, under terms agreed to by the Government of Canada. Included in the rescheduled amount was $19.9 million to be paid to the CWB by the government under debt-reduction arrangements, where the government had assumed certain amounts that otherwise would have been paid by the debtor government.

Overdue amounts in the Canadian equivalent of $772 million are due from Iraq as of July 31, 2004. International resolution of Iraq's payment obligation is expected over the next year. Since the Government of Canada guarantees repayment of 100 per cent of the principal and interest of the CGSP receivables, the CWB makes no allowance for credit losses (see Financial statement note 3).

AGRI-FOOD CREDIT FACILITY (ACF)

The ACF was established to facilitate CWB grain sales made on credit, directly or through accredited exporters, to commercial (non-government) customers around the world. The Government of Canada, together with the CWB, evaluates each transaction. During the year ended July 31, 2004, $153.2 million of grain was sold under the ACF program, compared to $95.7 million the previous year.

The balance receivable at July 31, 2004 from sales made under this program was $72.8 million. The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment period, with the CWB assuming the residual risk not guaranteed. The portion of credit risk assumed by the CWB under this program at July 31, 2004 was $1.5 million. This is considered collectable, therefore there was no allowance made for credit losses (see Financial statement note 3).

CREDIT ASSUMED BY OTHERS

The CWB may partner with other parties in providing credit to CWB customers. In these cases, the CWB receives payment for the other party's portion of the credit transaction. The other party then assumes the risk of non-payment by the customer on their portion of the credit extended. During the year ended July 31, 2004, credit provided by other parties under these arrangements totalled $150 million, compared to $95.7 million the previous year.

Funding

The CWB is committed to minimizing borrowing costs and maintaining access to money through exploring new borrowing opportunities, as well as expanding and diversifying its investor base.

Under *The Canadian Wheat Board Act*, and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance, resulting in the top long-term and short-term credit ratings from Moody's Investor Service (AAA/P-1), Standard and Poor's Ratings Group (AAA/A-1+) and Dominion Bond Rating Service (AAA and AA (High)/R-1(high)).

The CWB borrows money to finance grain inventories, accounts receivable from credit sales, administrative and operating expenses and to administer the Government of Canada's advance payment programs. The CWB borrows in a variety of currencies, but mitigates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios ranging between $5 and $6 billion Cdn outstanding. These include:

- Domestic commercial paper program (the 'Wheat Board Note' program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term notes.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity due to embedded call features.

Financial risk management

The CWB seeks to minimize risks related to the financial operations of the Corporation. The CWB actively manages exposures to financial risks and ensures adherence to approved corporate policies and risk-management guidelines.

MARKET RISK

Market risk is exposure to movements in the level or volatility of market prices that may adversely affect the CWB's financial condition. The market risks the CWB is exposed to are commodity, foreign exchange and interest rate risk.

Commodity price risk is exposure to reduced revenue for the CWB due to adverse change in commodity prices. The CWB uses exchange-traded futures and option contracts to mitigate commodity price risk inherent to its core business.

The CWB's commodity risk management program involves an integrated approach that combines sales activity with exchange-traded derivatives to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement the CWB's selling activity to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in limited discretionary pricing activity when necessary. The CWB also manages the commodity price risk related to the various Producer Payment Options offered to Prairie farmers that provide pricing choices and cash flow alternatives.

Foreign exchange risk is the exposure to changes in foreign exchange rates that may adversely affect Canadian dollar returns to the CWB. Sales made by the CWB are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign exchange risk.

To manage foreign exchange risk, the CWB hedges foreign currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. In addition, the CWB manages foreign exchange risk as it relates to various payment options offered to Prairie farmers.

Interest rate risk is the exposure to changes in market interest rates that may adversely affect the CWB's net interest-earnings. The CWB's interest-rate risk arises from the mismatch in term and interest rate re-pricing dates on the CWB's interest-earning assets and interest-paying liabilities. The spread between the interest-earning assets and interest-paying liabilities represents net interest-earnings, which are paid to farmers annually.

CREDIT RISK

Credit risk is the risk of potential loss should a counterparty fail to meet its contractual obligations. The CWB is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks.

ACCOUNTS RECEIVABLE FROM CREDIT SALES

The CWB sells grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the 'Credit Grain Sales Program' section on page 64 and Financial Statement Note 3.

INVESTMENTS

The CWB uses short-term investments for the purpose of cash management, adhering to requirements of *The Canadian Wheat Board Act*, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines. The CWB manages investment-related credit risk by transacting only with highly rated counterparties.

DERIVATIVE TRANSACTIONS

The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk. The CWB transacts only with highly-rated counterparties who meet the requirements of the CWB's financial risk-management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB's commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. The CWB manages its credit risk on futures and option contracts by dealing through exchanges which require daily mark-to-market and settlement.

LIQUIDITY RISK

Liquidity risk is the risk of being unable to meet corporate obligations. In the normal course of operations, the CWB's diversified funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly-rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, the CWB maintains lines of credit with financial institutions to provide supplementary access to funds.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The 2004 growing season was one of the coldest on record. By the end of June, with delayed planting and cool weather, crops in the east were as much as three weeks behind normal, while crops in the west were about one week behind. Temperatures improved in July but fell below average again in August and into September, delaying maturity. The cool weather, combined with adequate moisture, reduced plant stress and lengthened the growing period, resulting in wheat, durum and barley yields that were all above the five-year average. This lack of plant stress and higher yields also contributed to protein levels that were significantly below average. The quality of the wheat and barley crops was hurt by the cool, wet conditions experienced in August and September that delayed harvest and resulted in downgrading due to mildew, sprouting and bleaching. Freezing temperatures during the third week in August also caused significant damage to immature crops in parts of Saskatchewan and Manitoba.

Production in other countries around the world also rose this year with big yields, particularly in Europe and the Commonwealth of Independent States (CIS). In fact, the 2004 growing season produced the largest world wheat, durum, corn and soybean crops in recorded history. The world barley crop was also well above average levels.

As a result, the global wheat market is set up to be very competitive in the medium- and lower-quality categories, but extremely tight supplies of high-grade, high-protein spring wheat will force the industry to ration demand in this segment of the market. The production recovery in Europe and the CIS has boosted competition compared to 2003-04, but tight global stocks and the re-emergence of China as one of the largest wheat importers in the world has provided support.

The durum market in 2004-05 is characterized by bumper crops in both the EU and North Africa – two key importing regions. This is the second bumper crop in a row for North Africa. However, poor harvest conditions in Italy, Spain, Greece, Algeria, Tunisia, Canada and the U.S. are expected to provide significant support for high-grade durum in this otherwise very competitive environment.

The global feed barley market is also very competitive this year. Although Australia has a smaller barley crop, large supplies of barley, corn and feed wheat in other exporting countries will keep pressure on the global feed complex. With a much larger crop, the EU has resumed export subsidies on feed barley exports in order to be competitive with exports from the Black Sea. Global import demand is expected to be marginally weaker due to the large crops in North Africa and the Middle East.

At the start of the crop year, global malting barley prices were under pressure due to large Australian carry-in supplies. The EU has a much larger barley crop. However, with both Australia and Canada facing lower new-crop exportable supplies and with Chinese import demand returning to normal, the outlook for malting barley prices is positive.

Other factors will also affect the markets and prices for western Canadian grain. They are:

- The continual strengthening of the Canadian dollar. At the beginning of November 2004, the foreign-exchange rate for the Canadian dollar was approximately nine-per-cent stronger than it was at the beginning of November 2003.
- Ocean freight rates are expected to stay high, driven largely by China's voracious demand for raw materials to feed its growing economy. These higher rates have increased Canada's freight disadvantage into most markets.
- The effects of the single case of BSE discovered in May 2003. Repercussions continue to be felt in the domestic feed grain market, especially in a year where there is a larger feed grain surplus on the Prairies due to untimely frosts and rains. The imposition of tariffs and ongoing investigation due to a U.S. Countervailing and Antidumping investigation against Canadian live hogs going to the U.S. adds to the uncertainty of the domestic feeding industry.

- The U.S. continues its policy of trade harassment toward the farmers of Western Canada. Tariffs on hard red spring wheat imposed by the U.S. Department of Commerce in October 2003 remain in place. The CWB, along with the Government of Canada, Alberta and Saskatchewan, have appealed the countervailing determination to a North American Free Trade (NAFTA) panel. As well, the CWB has appealed the U.S. International Trade Commission's injury ruling on hard red spring wheat to a separate NAFTA panel. Appeal decisions for both cases are expected in the first half of 2005.
- On August 1, 2004, World Trade Organization (WTO) members reached agreement on a framework that will guide future multilateral trade negotiations in the Doha round. This agreement has direct implications for State Trading Enterprises (STEs) such as the CWB. An eventual WTO agreement based on this framework will result in the elimination of the CWB's borrowing and payment guarantees. The framework also states that the "future use of monopoly powers" will be negotiated. The framework will also have implications for the use of agriculture support policies, such as export subsidies (which will be eliminated), export credit, food aid, domestic subsidies and for the way and extent to which countries provide access to domestic markets. The implications of this framework are more precise in some areas, such as STEs and export subsidies, than in others, such as domestic support and market access.
- Providing choice and flexibility is a priority of the farmer-controlled board of directors. There have been a number of enhancements to the Producer Payment Options program in 2004-05. The CWB board of directors is also examining possible new programs and improvements to existing programs to increase flexibility and farmer control over pricing. While the Producer Payment Options offer farmers opportunities to exercise control over pricing their wheat, durum and barley, they are structured so that the viability and the integrity of the CWB pool accounts are maintained.

Forward-looking information

Certain forward-looking information statements contained in this annual report are subject to risk and uncertainty because they rely on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed, including but not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; changes in competitive forces and global political/economic conditions, including grain subsidy actions of the U.S. and EU.

Financial results

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Canadian Wheat Board included in this Annual Report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2003-04 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2004.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by an internal audit department that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Adrián Measner

Adrian Measner
President and Chief Executive Officer

Gordon P. Menzie
Chief Financial Officer

Winnipeg, Manitoba
November 18, 2004

AUDITORS' REPORT

To the board of directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which includes the balance sheet as at July 31, 2004 and the statement of pool operations and statement of distribution to producers for the 2003-2004 combined pool accounts, the statements of pool operations and statements of distribution to producers for the 2003-2004 pool accounts for wheat, durum and barley for the period August 1, 2003 to completion of operations on July 31, 2004 and for designated barley for the period August 1, 2003 to completion of operations on August 31, 2004, the statements of producer payment option program operations for wheat, durum and barley for the period August 1, 2003 to July 31, 2004 and for designated barley for the period August 1, 2003 to August 31, 2004, the statement of cash flow for the year ended July 31, 2004, and the statement of administrative expenses for the year ended July 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2004 and the results of its operations and its cash flows for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
November 18, 2004

Balance sheet

AS AT JULY 31 (dollar amounts in 000's)	2004	2003
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 5,311,103	$ 5,903,578
Non-credit sales	27,510	4,450
Advance payment programs (Note 4)	318,776	374,824
Prepayment of inventory program	24,880	73,429
Due from Government - funding of wheat pool deficit	-	85,388
Other	61,389	30,500
	5,743,658	**6,472,169**
Inventory of grain (Note 5)	871,269	1,121,941
Deferred and prepaid expenses (Note 6)	10,093	35,306
Capital assets (Note 7)	51,436	53,881
Total assets	**$ 6,676,456**	**$ 7,683,297**
LIABILITIES		
Borrowings (Note 8)	$ 5,482,135	$ 6,431,472
Accounts payable and accrued expenses (Note 9)	148,046	137,872
Liability to agents (Note 10)	542,513	876,815
Liability to producers – Outstanding cheques	15,121	3,746
Liability to producers – Undistributed earnings (Note 11)	463,887	208,595
Provision for producer payment expenses (Note 12)	2,241	2,614
Special account (Note 13)	4,060	4,948
Contingency fund (Note 14)	18,453	17,235
Total liabilities	**$ 6,676,456**	**$ 7,683,297**

Approved by the Board of Directors:

Ken Ritter

Ken Ritter
Chair, Board of Directors

Adrian Measner

Adrian Measner
President and Chief Executive Officer

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
STATEMENT OF POOL OPERATIONS *		
Receipts (tonnes)	18 438 041	13 430 948
Revenue	**$ 4,136,168**	**$ 3,339,872**
Direct costs		
Freight	190,437	144,050
Terminal handling	97,770	68,470
Inventory storage	52,654	56,940
Country inventory financing	7,216	13,577
Inventory adjustments (Note 15)	(3,982)	846
Other grain purchases (Note 16)	6,536	11,277
Other direct expenses (Note 17)	19,075	23,544
Total direct costs	**369,706**	**318,704**
Net revenue from operations	**3,766,462**	**3,021,168**
Other income (Note 18)	161,124	132,672
Net interest earnings	56,125	54,816
Administrative expenses (Note 19)	(67,581)	(54,082)
Grain industry organizations	(1,836)	(1,799)
Earnings for distribution	**$ 3,914,294**	**$ 3,152,775**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2004	2003
Earnings distributed to pool participants		
Receipts (tonnes)	18 278 788	13 391 012
Initial payments on delivery	$ 2,892,700	$ 2,789,347
Adjustment payments	509,209	222,473
Interim payment	258,787	151,527
Final payment	204,961	57,050
Producer contract storage payments	15,984	3,568
Rebate on producer cars	139	17
Total Earnings distributed to pool participants	3,881,780	3,223,982
Government funding of pool deficit	-	**(85,388)**
Non-pool Producer Payment Options program		
Receipts (tonnes)	159 211	39 936
Sales returns paid to payment programs	32,514	9,104
Transferred to contingency fund		
Undistributed earnings	-	5,077
Total distribution	**$ 3,914,294**	**$ 3,152,775**

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004 Total	2004 Per tonne	2003 Total	2003 Per tonne
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)	12 375 988		8 696 221	
Revenue	**$ 2,808,294**	**$ 226.91**	**$ 2,076,582**	**$ 238.79**
Direct costs				
Freight	134,766	10.89	86,758	9.98
Terminal handling	77,799	6.28	42,290	4.86
Inventory storage	32,074	2.59	35,707	4.11
Country inventory financing	4,913	0.40	9,460	1.08
Inventory adjustments (Note 15)	(5,056)	(0.41)	10,331	1.19
Other grain purchases (Note 16)	4,329	0.35	7,636	0.88
Other direct expenses (Note 17)	13,239	1.06	16,667	1.92
Total direct costs	**262,064**	**21.16**	**208,849**	**24.02**
Net revenue from operations	**2,546,230**	**205.75**	**1,867,733**	**214.77**
Other income (Note 18)	97,673	7.89	97,883	11.26
Net interest earnings	39,858	3.22	39,458	4.54
Administrative expenses (Note 19)	(45,362)	(3.67)	(35,016)	(4.03)
Grain industry organizations	(1,179)	(0.10)	(1,092)	(0.13)
Earnings for distribution	**$ 2,637,220**	**$ 213.09**	**$ 1,968,966**	**$ 226.41**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION	2004 Total	2004 Per tonne	2003 Total	2003 Per tonne
Earnings distributed to pool participants				
Receipts (tonnes)	12 217 247		8 658 121	
Initial payments on delivery	$ 1,989,659	$ 162.86	$ 1,866,790	$ 215.61
Adjustment payments	347,732	28.46	178,919	20.66
Interim payment	144,204	11.80	-	-
Final payment	123,148	10.08	-	-
Rebate on producer cars	78	0.01	-	-
Total earnings distributed to pool participants	2,604,821	213.21	2,045,709	236.27
Government funding of pool deficit	-	-	(85,388)	(9.86)
Non-pool Producer Payment Options program				
Receipts (tonnes)	158 741		38 100	
Sales returns paid to payment programs	32,399	204.10	8,645	226.89
Total distribution	**$ 2,637,220**	**$ 213.09**	**$ 1,968,966**	**$ 226.41**

Durum pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004		2003	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	3 079 664		3 803 596	
Revenue	$ 771,330	$ 250.46	$ 1,060,762	$ 278.89
Direct costs				
Freight	46,311	15.04	57,174	15.03
Terminal handling	13,533	4.39	25,804	6.78
Inventory storage	12,047	3.91	17,101	4.50
Country inventory financing	1,305	0.42	3,128	0.82
Inventory adjustments (Note 15)	(962)	(0.31)	(9,640)	(2.54)
Other grain purchases (Note 16)	2,120	0.69	1,514	0.40
Other direct expenses (Note 17)	4,786	1.55	4,454	1.17
Total direct costs	**79,140**	**25.69**	**99,535**	**26.16**
Net revenue from operations	**692,190**	**224.77**	**961,227**	**252.73**
Other income (Note 18)	15,359	4.99	7,206	1.89
Net interest earnings	8,589	2.79	8,535	2.24
Administrative expenses (Note 19)	(11,288)	(3.67)	(15,316)	(4.03)
Grain industry organizations	(293)	(0.10)	(478)	(0.13)
Earnings for distribution	**$ 704,557**	**$ 228.78**	**$ 961,174**	**$ 252.70**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	3 079 194		3 801 760	
Initial payments on delivery	$ 487,124	$ 158.20	$ 747,652	$ 196.66
Adjustment payments	77,437	25.15	35,371	9.30
Interim payment	93,275	30.29	132,318	34.80
Final payment	46,560	15.12	45,357	11.93
Rebate on producer cars	53	0.02	17	-
Total earnings distributed to pool participants	704,449	228.78	960,715	252.69
Non-pool Producer Payment Options program				
Receipts (tonnes)	470		1 836	
Sales returns paid to payment programs	108	230.00	459	250.26
Total distribution	**$ 704,557**	**$ 228.78**	**$ 961,174**	**$ 252.70**

Designated barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2004		2003	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)	2 138 365		891 433	
Revenue	**$ 408,950**	**$ 191.24**	**$ 195,848**	**$ 219.70**
Direct costs				
Freight	9,504	4.44	111	0.12
Terminal handling	952	0.45	(11)	(0.01)
Inventory storage	6,195	2.90	3,915	4.39
Country inventory financing	900	0.42	971	1.09
Inventory adjustments (Note 15)	2,085	0.97	154	0.17
Other grain purchases (Note 16)	39	0.02	2,123	2.38
Other direct expenses (Note 17)	590	0.28	2,386	2.68
Total direct costs	**20,265**	**9.48**	**9,649**	**10.82**
Net revenue from operations	**388,685**	**181.76**	**186,199**	**208.88**
Other income (Note 18)	47,574	22.25	27,331	30.66
Net interest earnings	1,790	0.84	1,356	1.52
Administrative expenses (Note 19)	(7,838)	(3.67)	(3,590)	(4.03)
Grain industry organizations	(284)	(0.13)	(224)	(0.25)
Earnings for distribution	**$ 429,927**	**$ 201.05**	**$ 211,072**	**$ 236.78**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	2 138 365		891 433	
Initial payments on delivery	$ 327,636	$ 153.22	$ 169,016	$ 189.60
Adjustment payments	46,829	21.90	8,146	9.14
Interim payment	14,557	6.81	19,209	21.55
Final payment	24,918	11.65	11,133	12.49
Producer contract storage payments	15,984	7.47	3,568	4.00
Rebate on producer cars	3	-	-	-
Total distribution	**$ 429,927**	**$ 201.05**	**$ 211,072**	**$ 236.78**

Barley pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004		2003	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS *				
Receipts (tonnes)	844 024		39 698	
Revenue	$ 147,595	$ 174.87	$ 6,680	$ 168.28
Direct costs				
Freight	(143)	(0.17)	7	0.17
Terminal handling	5,486	6.49	387	9.75
Inventory storage	2,338	2.77	217	5.46
Country inventory financing	98	0.12	18	0.45
Inventory adjustments (Note 15)	(49)	(0.06)	2	0.06
Other grain purchases (Note 16)	48	0.06	3	0.08
Other direct expenses (Note 17)	460	0.54	37	0.93
Total direct costs	**8,238**	**9.75**	**671**	**16.90**
Net revenue from operations	**139,357**	**165.12**	**6,009**	**151.38**
Other income (Note 18)	517	0.61	252	6.35
Net interest earnings	5,888	6.98	5,467	137.70
Administrative expenses (Note 19)	(3,093)	(3.67)	(160)	(4.03)
Grain industry organizations	(80)	(0.10)	(5)	(0.13)
Earnings for distribution	**$ 142,589**	**$ 168.94**	**$ 11,563**	**$ 291.27**

*Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	843 982		[illegible]	
Initial payments on delivery	$ 88,280	$ 104.60	$ 5,889	$ 148.33
Adjustment payments	37,211	44.09	37	0.94
Interim payment	6,752	8.00	-	-
Final payment	10,334	12.24	560	14.11
Rebate on producer cars	5	0.01	-	-
Total earnings distributed to producers	142,582	168.94	6,486	163.38
Non-pool Producer Payment Options program				
Receipts (tonnes)	42	-	-	-
Sales returns paid to payment programs	7	169.21	-	-
Transferred to contingency fund				
Undistributed earnings (Note 14)	-	-	5,077	127.89
Total distribution	**$ 142,589**	**$ 168.94**	**$ 11,563**	**$ 291.27**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
WHEAT PROGRAMS		
FIXED PRICE CONTRACT/ BASIS PRICE CONTRACT		
Receipts (tonnes)	158 741	38 100
Revenue		
Sales returns paid to program	$ 32,399	$ 8,645
Liquidated damages	132	326
Net interest	9	90
	32,540	9,061
Expense		
Contracted amounts paid to producers	32,005	8,391
Net hedging activity	2	294
Administrative expense (Note 19)	255	356
	32,262	9,041
Net surplus on program operations	**$ 278**	**$ 20**
EARLY PAYMENT OPTION		
Receipts (tonnes)	1 181 213	130 696
Revenue		
Program discount	$ 1,831	$ 852
Net hedging activity	-	1,717
Liquidated damages	204	38
	2,035	2,607
Expense		
Pool returns less than contracted price	-	1,993
Net hedging activity	1,757	-
Net interest	137	43
	1,894	2,036
Net surplus on program operations	**$ 141**	**$ 571**
TOTAL WHEAT PROGRAMS (Note 14)	**$ 419**	**$ 591**

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
DURUM PROGRAM		
FIXED PRICE CONTRACT		
Receipts (tonnes)	470	1 836
Revenue		
Sales returns paid to program	$ 108	$ 459
Liquidated damages	1	10
	109	469
Expense		
Contracted amounts paid to producers	94	389
Net hedging activity	9	69
Net interest	1	3
Administrative expense (Note 19)	1	18
	105	479
Net surplus (deficit) on program operations	**$ 4**	**$ (10)**
EARLY PAYMENT OPTION		
Receipts (tonnes)	199 937	-
Revenue		
Program discount	$ 546	$ -
Liquidated damages	47	-
	593	-
Expense		
Net hedging activity	356	-
Net interest	46	-
	402	-
Net surplus on program operations	**$ 191**	**$ -**
TOTAL DURUM PROGRAMS (Note 14)	**$ 195**	**$ (10)**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2004	2003
DESIGNATED BARLEY PROGRAM		
EARLY PAYMENT OPTION		
Receipts (tonnes)	555 616	-
Revenue		
Program discount	$ 626	$ -
Liquidated damages	48	-
	674	-
Expense		
Net hedging activity	208	$ -
Net interest	81	-
	289	-
Net surplus on program operations	**$ 385**	**$ -**
TOTAL DESIGNATED BARLEY PROGRAM (Note 14)	**$ 385**	**$ -**

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
BARLEY PROGRAM		
FIXED PRICE CONTRACT		
Receipts (tonnes)	42	-
Revenue		
Sales returns paid to program	$ 7	$ -
Net interest	1	-
	8	-
Expense		
Contracted amounts paid to producers	5	-
Net hedging activity	1	-
	6	-
Net surplus on program operations	**$ 2**	**$ -**
EARLY PAYMENT OPTION		
Receipts (tonnes)	715 603	-
Revenue		
Program discount	$ 1,468	$ -
Net hedging activity	88	-
Liquidated damages	27	-
Net interest	-	7
	1,583	7
Expense		
Producer contract storage	254	-
Net interest	101	-
	355	-
Net surplus on program operations (Note 14)	**$ 1,228**	**$ 7**
TOTAL BARLEY PROGRAMS (Note 14)	**$ 1,230**	**$ 7**

Statement of cash flow

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
Increases (Decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 3,914,293	$ 3,152,776
Producer Payment Options program operations	1,820	263
Interest earned on non-program contingency fund balance	278	148
Add non-cash items		
Depreciation on CWB hopper cars	2,650	2,698
Depreciation on other capital assets	9,388	7,797
Adjustment related to 2002-03 EPO program	(1,289)	-
Cash flow from operating activities before changes in working capital	3,927,140	3,163,682
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	136,035	28,176
Inventory of grain	250,672	(216,298)
Deferred and prepaid expenses	25,214	(16,335)
Accounts payable and accrued expenses	10,174	22,857
Liability to agents	(334,302)	326,800
Liability to producers for outstanding cheques	11,374	(30,898)
Provision for producer payment expenses	(373)	(1,073)
Special account	(888)	749
	4,025,046	3,277,660
Cash flow from financing activities		
Decrease in borrowings	(949,337)	(904,890)
	(949,337)	(904,890)
Cash flow from investing and other activities		
Accounts receivable - credit programs	592,476	1,061,870
Purchase of capital assets	(9,869)	(7,941)
Proceeds from sale of capital assets	277	327
	582,884	1,054,256
Cash distributions		
Prior year undistributed earnings	(208,595)	(402,859)
Current year distributions prior to July 31	(3,417,892)	(3,015,388)
Non-pool producer payment option payments	(32,106)	(8,779)
	(3,658,593)	(3,427,026)
Net increase in cash and cash equivalents	-	-
Net cash position at beginning of year	-	-
Net cash position at end of year	$ -	$ -

Statement of administrative expenses

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2004	2003
Human resources	$ 40,355	$ 35,692
Office services	3,388	3,720
Professional fees	7,033	12,596
Computer services	3,691	3,568
Facilities	2,150	2,283
Travel	1,823	1,363
Advertising and promotion	1,307	806
Other	726	664
Training	376	228
Depreciation	9,388	7,797
Recoveries	(2,229)	(2,053)
Total administrative expenses (Note 19)	**$ 68,008**	**$ 66,664**

Notes to the financial statements

1. ACT OF INCORPORATION AND MANDATE

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act*, a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend The Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprised of ten producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister Responsible for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the corporation may undertake in the future. Actual results could differ from those estimates.

RESULTS OF OPERATIONS

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract.

Inventory – Inventory of grain on hand at July 31 is valued at the amount of sales proceeds that is ultimately expected to be received as sale proceeds.

Direct operating expenses and income subsequent to July 31 – A provision is made for direct operating expenses and income occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement are accrued to the appropriate Operating Statement account and are reflected in the Balance Sheet as net accounts payable.

ALLOWANCES FOR LOSSES ON ACCOUNTS RECEIVABLE

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility. The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the Credit Grain Sales Program and the Agri-food Credit Facility, the Corporation may enter into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act*, the *Spring Credit Advance Program* and the *Unharvested Threshed Grain Advance Program*.

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses are provided for where collection is deemed unlikely.

Capital assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment	1 to 6
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars	30
Building	40
Leasehold improvements	Term of lease

TRANSLATION OF FOREIGN CURRENCIES

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than the Canadian or United States dollar are hedged by cross-currency interest rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign exchange forward contracts. Forward exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign exchange gains included in operations for the year ended July 31, 2004 are $2,301,731 (2003 - $7,935,552).

DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are only used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which require specific authorization for approval and commitment of contracts. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Effective August 1, 2003, the Corporation adopted the Canadian Institute of Chartered Accountants Accounting Guideline AcG13 Hedging Relationships. This guideline provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessments of effectiveness. The guideline does not change the Corporation's method of accounting for derivative instruments in hedging relationships. Hedge accounting is applied when there is a high degree of correlation between changes in fair values or cash flows of derivative contracts and the hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked to market at the balance sheet date, with the unrealized gains or losses disclosed as a component of Deferred and Prepaid Expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

Interest rate contracts are used to manage interest rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single currency and cross-currency interest rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign exchange contracts are used to hedge currency exposure arising from grain sales, PPOs and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs, as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPOs. The amounts to be paid or received under future and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

NET INTEREST EARNINGS

Net interest earnings includes interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

EMPLOYEE FUTURE BENEFITS

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension Plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the Public Service Superannuation Act (PSSA) pension plan, administered by the Government of Canada. Currently, the Corporation is negotiating with the Government of Canada for the transfer of pension assets from the PSSA for employees who choose to transfer past service to the new plan. This transfer of assets from the PSSA will occur in the future. When the asset transfer amount is known, the value of these assets, related accrued benefit obligation and other disclosures will be presented as required by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors three defined-benefit pension plans and one defined-contribution plan. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered.

Other Post-Employment Benefits – The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health-care costs. Post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 12 years (2003 - 15 years).
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

3. ACCOUNTS RECEIVABLE FROM CREDIT SALES PROGRAM

(dollar amounts in 000's)	Credit Grain Sales Program	Agri-food Credit Facility	**2004 Total**	2003 Total
Due from foreign customers				
Current		$ 72,752	**$ 72,752**	$ 30,416
Overdue	772,040	-	**772,040**	801,609
Rescheduled	4,446,391	-	**4,446,391**	5,045,332
	5,218,431	72,752	**5,291,183**	5,877,357
Due from Government of Canada	19,920	-	**19,920**	26,221
	$ 5,238,351	$ 72,752	**$ 5,311,103**	$ 5,903,578
Credit risk				
Guaranteed by Government of Canada	$ 5,238,351	$ 71,297	**$ 5,309,648**	$ 5,902,970
Assumed by CWB	-	1,455	**1,455**	608
	$ 5,238,351	$ 72,752	**$ 5,311,103**	$ 5,903,578

Accounts receivable balances are classified under the following applicable credit programs:

[illegible]

Accounts receivable under this program arise from sales to Algeria, Brazil, Egypt, Ethiopia, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. Of the $5,218,430,774 principal and accrued interest due from foreign customers at July 31, 2004, $3,932,453,705 represents the Canadian equivalent of $2,957,844,080, repayable in U.S. funds. Of the $5,846,940,933 principal and accrued interest due from customers at July 31, 2003, $4,389,683,187 represents the Canadian equivalent of $3,124,774,478, repayable in U.S. funds.

Overdue accounts receivable at July 31, 2004 represent amounts due from Iraq where payments for past credit sales had not been received on due dates and were still outstanding at year end.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Ethiopia, Haiti, Jamaica, Pakistan, Peru, Poland, Russia and Zambia. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Ethiopia, Poland and Zambia. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $19,919,726 was due from the Government of Canada as at July 31, 2004 under these debt-reduction agreements. Of this amount, $5,632,030 represents the Canadian equivalent of $4,236,202 that will be repayable in U.S. funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

AGRI-FOOD CREDIT FACILITY

Accounts receivable under this facility arise from sales to customers in Indonesia, Mexico, Guatemala and Peru. The July 31, 2004 balance of $72,752,071 principal and accrued interest due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $54,721,377 repayable in U.S. funds. The July 31, 2003 balance of $30,415,531 principal and accrued interest represents the Canadian equivalent of $21,651,147 repayable in U.S. funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety, therefore there is no allowance for credit losses.

FAIR VALUE

All accounts receivable resulting from sales made under credit programs as at July 31, 2004 have contractual interest rate repricing dates under 365 days. As a result of the short terms to repricing dates of these financial instruments, fair value approximates the carrying values.

MATURITIES

These accounts receivable mature as follows:

(dollar amounts in 000's)		2004	2003
Amounts due:	Within 1 year	$ 592,335	$ 493,794
	From 1 - 2 years	549,318	499,181
	From 2 - 3 years	570,417	567,198
	From 3 - 4 years	600,447	589,296
	From 4 - 5 years	692,569	620,961
	Over 5 years	1,533,977	2,331,538
	Overdue	772,040	801,610
		$ 5,311,103	$ 5,903,578

4. ACCOUNTS RECEIVABLE FROM ADVANCE PAYMENT PROGRAMS

(dollar amounts in 000's)	Agricultural Marketing Programs Act	Prairie Grain Advance Payments Act	Spring Credit Advance Program	Unharvested Threshed Grain Advance Program	2004 Total	2003 Total
Due from producers	$ 58,989	$ -	$ 242,763	$ 52	$ 301,804	$ 364,011
Due from (to) Government of Canada	(57)	1	781	(9)	716	2,456
Due from agents of the CWB	20,148	-	(3,892)	-	16,256	8,357
	$ 79,080	$ 1	$ 239,652	$ 43	$ 318,776	$ 374,824

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to producers; therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act (PGAPA)*. The Government of Canada pays interest on advances up to $50,000 and the producer pays interest on any amounts in excess of $50,000.

The Government of Canada introduced the *Spring Credit Advance Program (SCAP)* in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50,000, with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

The Government of Canada introduced the *Unharvested Threshed Grain Advance Program* in the 2002-03 crop year. The program provides cash flow to farmers who are unable to harvest their grain due to early snowfall. The program enables producers to receive up to $25,000 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

Cash advances issued during the year by the Corporation under these programs totaled $706,091,160, including $462,894,675 issued under the *AMPA* and $243,196,485 issued under the *SCAP*.

Collections from producers and grain companies subsequent to reimbursement by Government of Canada, plus interest on default accounts collected from producers, are remitted to the Government of Canada as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. INVENTORY OF GRAIN

Inventory of grain at July 31 is reported at values ultimately expected to be received as sale proceeds as follows:

	2004		2003	
(dollar amounts in 000's)	Tonnes	Amount	Tonnes	Amount
Wheat	2 334 701	$ 520,125	2 981 996	$ 649,368
Durum	1 065 995	247,404	1 584 030	413,060
Designated barley	465 267	96,592	241 853	53,836
Barley	52 660	7,148	30 589	5,677
	3 918 623	$ 871,269	4 838 468	$ 1,121,941

6. DEFERRED AND PREPAID EXPENSES

(dollar amounts in 000's)	2004	2003
Net results of hedging activities applicable to subsequent pool accounts	$ (26,070)	$ 18,216
Prepaid cost of moving inventory to eastern export position	15,663	-
Deposits on commodity margin accounts	15,325	10,930
Purchase and lease-renewal options on leased hopper cars	3,859	4,193
Other	1,316	1,967
	$ 10,093	$ 35,306

7. CAPITAL ASSETS

	2004			2003		
(dollar amounts in 000's)	**Cost**	**Accum deprec.**	**Net book value**	Cost	Accum deprec.	Net book value
Computer systems development	**$ 61,113**	**$ 32,003**	**$ 29,110**	$ 54,582	$ 25,086	$ 29,496
Hopper cars	**83,130**	**67,890**	**15,240**	83,583	65,473	18,110
Computer equipment	**16,656**	**12,142**	**4,514**	14,891	11,179	3,712
Furniture and equipment	**4,992**	**3,778**	**1,214**	4,971	3,557	1,414
Land, building and improvements	**8,679**	**7,694**	**985**	8,275	7,505	770
Automobiles	**508**	**135**	**373**	512	133	379
Leasehold improvements	**158**	**158**	**-**	158	158	-
	$175,236	**$ 123,800**	**$ 51,436**	$ 166,972	$ 113,091	$ 53,881

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,555,620. Of these, 164 cars have been wrecked and dismantled, leaving 1,836 in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8. BORROWINGS

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Canadian Wheat Board Act.*

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, United States and Euro markets, bank loans and medium-term notes with remaining maturities less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the United States dollar.

Long-term borrowings are notes issued in the Domestic and Euro Medium Term Note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

(dollar amounts in 000's)	Effective interest rate (%)	**2004**	2003
Short-term borrowings	0.96 - 2.80	**$ 5,612,617**	$ 7,515,620
Long-term borrowings	0.74 - 1.63	**1,455,046**	346,873
Accrued interest	-	**19,130**	29,072
Total borrowings	0.74 - 2.80	**7,086,793**	7,891,565
Less temporary investments	1.26 - 2.03	**(1,604,658)**	(1,460,093)
Net borrowings	0.74 - 2.80	**$ 5,482,135**	$ 6,431,472

Of the net borrowings at July 31, 2004, $3,720,270,034 represents the Canadian equivalent of $2,798,247,487 that will be repayable in U.S. funds. Of the net borrowings at July 31, 2003, $4,410,350,021 represents the Canadian equivalent of $3,139,486,063 repayable in U.S. funds.

These borrowings mature as follows:

(dollar amounts in 000's)		**2004**	2003
Amounts due:	within 1 year	**$ 5,631,747**	$ 7,544,692
	from 1 - 2 years	**9,495**	-
	from 2 - 3 years	**59,828**	33,777
	from 3 - 4 years	**26,590**	-
	from 4 - 5 years	**59,828**	56,192
	over 5 years	**1,299,305**	256,904
		$ 7,086,793	$ 7,891,565

After giving effect to interest rate swaps, all borrowings have contractual interest-rate repricing dates of 365 days or less and, as a result, carrying values of these borrowings approximate their fair values.

9. ACCOUNTS PAYABLE & ACCRUED EXPENSES

(dollar amounts in 000's)	2004	2003
Accounts payable and accrued liabilities	**$ 77,155**	$ 61,867
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	**50,541**	63,786
Deferred sales revenue	**20,350**	12,219
	$ 148,046	$ 137,872

10. LIABILITY TO AGENTS

(dollar amounts in 000's)	2004	2003
Grain purchased from producers	**$ 467,957**	$ 756,076
Deferred cash tickets	**74,556**	120,739
	$ 542,513	$ 876,815

GRAIN PURCHASED FROM PRODUCERS

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

DEFERRED CASH TICKETS

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. LIABILITY TO PRODUCERS – UNDISTRIBUTED EARNINGS

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $463,886,647 (2003 - $208,594,604), $258,787,473 (2003 - $151,527,062) was distributed to producers in an interim payment on October 5, 2004. The balance of $205,099,174 (2003 - $57,067,542) will be distributed to producers through final payments and producer car rebates.

12. PROVISION FOR PRODUCER PAYMENT EXPENSES

The amount of $2,240,709 (2003 - $2,614,031) represents the balance of the reserve for producer-payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

13. SPECIAL ACCOUNT – NET BALANCE OF UNDISTRIBUTED PAYMENT ACCOUNTS

In accordance with the provision of Section 39 of *The Canadian Wheat Board Act*, the Governor-in-Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers. The activity in the Special Account is comprised of:

(dollar amounts in 000's)	2004	2003
Beginning of year	**$ 4,948**	$ 4,199
Transfer from payment accounts	**247**	1,622
Expenditures	**(1,132)**	(868)
Payments to producers against old payment accounts	**(3)**	(5)
End of year	**$ 4,060**	$ 4,948
Ending balance comprised of:		
Unexpended authorizations	**978**	780
Not designated for expenditure	**3,082**	4,168
	$ 4,060	$ 4,948

During the year ended July 31, 2004, the balance from payment accounts for 1996 wheat, 1996 durum and 1996 designated barley were transferred to the Special Account under Order-in-Council P.C. 2004-571.

Program activity during the 2003-04 crop year is detailed as follows:

(dollar amounts in 000's)	Unexpended at beginning of year	Authorized	Expended	Expired	Unexpended at end of year
Market development program	$ 326	$ 35	$ (19)	$ -	$ 342
Canadian International Grains Institute					
Capital expenditures	185	300	(80)	-	405
University of Manitoba					
Agribusiness Chair	150	-	(75)	-	75
Grain Storage Research Facility	-	400	(400)	-	-
Scholarship program	119	280	(393)	-	6
Fusarium Head Blight research					
Project for barley	-	165	(165)	-	-
Variety Identification Project	-	150	-	-	150
	$ 780	$ 1,330	$ (1,132)	$ -	$ 978

14. CONTINGENCY FUND

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms, including the results of operations of the Producer Payment Options or other sources of revenue received in the course of operations. The components of the contingency fund are described below:

PRODUCER PAYMENT OPTIONS PROGRAM

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract/Basis Price Contract (FPC/BPC) provides producers with the opportunity to lock in a fixed price or basis for all or a portion of their grain prior to the beginning of the crop year. Full payment for the grain is received immediately after delivery and the producer is not eligible for other payments from the pool account. The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery while still remaining eligible for other payments from the pool account.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund so that net operating results will not affect the pool accounts.

OTHER

As provided for under *The Canadian Wheat Board Act*, interest earnings from the barley pool have been transferred to the contingency fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, are allocated to the barley pool and the distorting effect of certain fixed costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and Producer Payment Options program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

The 2002-03 wheat pool deficit payment from the Government of Canada and related accounting treatment between the wheat pool account and the wheat EPO accounts resulted in a charge of $1,288,663 to the contingency fund.

The contingency fund balance at July 31, 2004 is detailed as follows:

	Producer Payment Options Program					**2004**	2003
(dollar amounts in 000's)	Wheat	Durum	Des barley	Barley	Other	**Total**	Total
Opening surplus, beginning of year	$ 4,665	$ (10)	$ -	$ 240	$ 12,340	**$ 17,235**	$ 11,422
Transferred from Pool accounts	-	-	-	-	-	-	5,077
Surplus from Producer Payment Options program	419	195	385	1,230	-	**2,229**	588
Interest earned on non-program fund balances	-	-	-	-	278	**278**	148
Adjustment related to 2002-03 EPO Program	(1,289)	-	-	-	-	**(1,289)**	-
Closing surplus, end of year	$ 3,795	$ 185	$ 385	$ 1,470	$ 12,618	**$18,453**	$ 17,235

15. INVENTORY ADJUSTMENTS

Inventory Adjustments capture the related dollar impact, at the current initial price of changes in grade and protein of the grain delivered by producers from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool because the Corporation compensates grain companies for the increase in current initial price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool from selling higher-quality grain exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower-quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower-quality grain, whereas they have paid the farmer the higher initial price of the higher-quality grain originally reported as delivered.

16. OTHER GRAIN PURCHASES

Other Grain Purchases captures the net result of inventory overages acquired at initial price and inventory shortages sold at export price. These overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. OTHER DIRECT EXPENSES

Other Direct Expenses are primarily made up of contract-cancellation charges, program expenses, agents' commissions, fees for inspection and testing of grain, Corporation owned and leased hopper cars and demurrage.

18. OTHER INCOME

Other Income is primarily made up of the Freight-Adjustment Factor recovery and recovery of charges, deducted by the Corporation's agents at time of producer delivery, that were subsequently not incurred by the agent. The most significant charge recovered is the recovery of the rail-freight cash ticket deduction when grain moves to a location other than terminal position.

19. ADMINISTRATIVE EXPENSES

(dollar amounts in 000's)	**2004**	2003
Administrative expenses for fiscal year ended July 31	**$ 68,008**	$ 66,664
Current fiscal year's expense related to administration of the prior year's pool accounts	-	(11,993)
Prior fiscal year's expense related to administration of the current year's Producer Payment Options program	-	83
Adjusted administrative expenses	**$ 68,008**	$ 54,754
Allocated as follows:		
Wheat pool	**$ 45,362**	$ 35,016
Durum pool	**11,288**	15,316
Designated barley pool	**7,838**	3,590
Barley pool	**3,093**	160
Total to pools	**67,581**	54,082
Wheat FPC/BPC Producer Payment Option program	**255**	356
Durum FPC Producer Payment Option program	-	18
Producer payment accounts	**172**	298
	$ 68,008	$ 54,754

Administrative expenses, less the expenses attributable to the distribution of final payments and the incremental costs related to the Producer Payment Options program, are allocated to each pool on the basis of relative tonnage.

20. COMMITMENTS

The Corporation administers leases for grain hopper cars for the Government of Canada with lease terms of 25 years, expiring in 2006. Of the 1,750 cars leased under the original agreements, 86 have been wrecked and dismantled, leaving 1,664 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the Government of Canada and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2004 were $14,629,999 (2003 - $16,658,004).

In 1995, the Corporation purchased an option to extend the lease agreement on 250 hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right on the 244 remaining cars. The cost of the option is being amortized over the term of the five-year extension. The lease payments under this lease-extension option are not recoverable from the Government of Canada and will be paid directly by the pool accounts. Effective April 2001, the Corporation sublet the remaining 242 cars to a third party for a term expiring October 2005.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the Government of Canada cars at the end of the lease terms in 2006. Of these cars, 77 cars have been wrecked and dismantled, leaving 1,473 cars, which may be purchased at a total cost of $17,393,022 in United States dollars. The cost of these options is recorded in deferred and prepaid expenses.

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between August 2004 and October 2008. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2004 were $875,566 (2003 - $1,071,509).

Lease costs on premises and office equipment are charged to Administrative Expenses. Commitments under operating leases are as follows:

(dollar amounts in 000's)	Hopper cars (US$)	Premises & office equipment (Cdn$)
2005	456	480
2006	76	218
2007	-	162
2008	-	27
After 2008	-	-

In addition, the Corporation has agreed to fund the operations of the Canadian International Grains Institute for a base amount of $1,666,000 annually through to 2008.

21. DERIVATIVE FINANCIAL AND COMMODITY INSTRUMENTS

The Corporation enters into single and cross-currency interest-rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest-rate fluctuations.

The Corporation also enters into foreign exchange forward and currency swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

These financial instruments qualify for hedge accounting and are not recognized in the balance sheet. As at July 31, 2004 the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2004			2003		
(dollar amounts in 000's)	**Notional amounts**	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest rate contracts						
Single-currency interest rate swaps	**$ 732,575**	**$ (2,791)**	**$ 3,737**	$ 196,812	$ (8,562)	$ 47
Cross-currency interest rate swaps	**722,471**	**(24,560)**	**8,125**	163,637	3,219	5,221
	1,455,046	**(27,351)**	**11,862**	360,449	(5,343)	5,268
Foreign exchange contracts						
Forwards	**1,412,962**	**24,253**	**29,084**	940,379	(12,282)	5,851
Currency swaps	**815,372**	**(6,519)**	**6,879**	1,180,301	(20,537)	3,624
	2,228,334	**17,734**	**35,963**	2,120,680	(32,819)	9,475
	$ 3,683,380	**$ (9,617)**	**$ 47,825**	$ 2,481,129	$ (38,162)	$ 14,743

As of the statement date, all foreign-exchange contracts mature within one year. The interest-rate contracts with maturities between one and five years and beyond five years had notional amounts outstanding of $155,740,520 and $1,299,305,405 respectively. The swap contracts rates ranged between 0.74 per cent and 1.63 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's Board of Directors. Master netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2004 was $780,784,034 (2003 - $477,323,291) and the largest credit risk with any institution as at July 31, 2004 was $8,956,933 (2003 - $3,104,487).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

22. EMPLOYEE FUTURE BENEFITS

Employee future benefits relate to the Corporation's pension plans and the other post-employment benefits.

Total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its defined benefit and defined contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $4,961,798 (2003 - $5,057,372).

PENSION PLANS

The Corporation's pension expense for the year ended July 31, 2004 was $3,969,688 (2003 - $4,128,052) including *The Public Service Superannuation Act* contributions. As a result of corporate review, there were staff reductions that have had an impact on pension plans. The financial effect of this event is not known.

An actuarial valuation of the Corporation's pension plan is currently in process and is required annually for the first three years of existence. The Corporation is not able to disclose the full pension obligation or plan assets for the year ended July 31, 2004 as required by Generally Accepted Accounting Principles, because the actuarial valuation is not complete, pending completion of the pension-transfer asset value.

Defined Benefit Pension Plan assets:

These tables include the defined benefit components of the Corporation's pension plans, but exclude the pension transfer value from the PSSA plan. Plan assets for the year ended July 31, 2003 reflect only one month of activity, as the Corporation began administering its own plans effective July 1, 2003.

Change in fair value

(dollar amounts in 000's)	2004	2003
Balance, beginning of year	$ 427	$ -
Actual return on plan assets	205	2
Employer contributions	3,868	317
Employee contributions	1,191	108
Benefits & expenses	(377)	-
Balance, end of year	**$ 5,314**	$ 427

The percentages of plan assets, based on market values at July 31 are:

Asset category	2004	2003
Equity securities	43%	58%
Debt securities	28%	36%
Other	29%	6%
Total	**100%**	100%

Defined contribution plan:

The Corporation expensed $32,169 (2003 - $2,810) to the defined contribution component of the Corporation's pension plan. Employees contributed $142,189 (2003 - $12,389) to the defined contribution component of the Corporation's pension plan as at July 31, 2004. Benefits paid from the defined contribution component were $12,739 (2003 - $0).

OTHER POST-EMPLOYMENT BENEFITS

The Corporation measures its accrued benefit obligations for accounting purposes as at July 31, 2004. The most recent actuarial valuation was completed as of July 31, 2004. The next required valuation will be as of July 31, 2007.

The following tables present information related to post-employment benefit plans provided by the Corporation, including amounts recorded on the Balance Sheet and the components of the cost of net benefits for the period.

Reconciliation of accrued benefit obligation:

(dollar amounts in 000's)	2004	2003
Accrued benefit obligation, beginning of year	$ 18,616	$ 17,891
Employee contributions	-	-
Benefits paid	(992)	(929)
Current service cost	626	591
Interest cost	1,106	1,063
Curtailment*	1,227	-
Curtailment recognized	(1,227)	-
Actuarial loss	7,502	-
Accrued benefit obligation, end of year	**$ 26,858**	$ 18,616

Reconciliation of the accrued obligation and plan deficit to accrued liability:

(dollar amounts in 000's)	2004	2003
Fair value of plan assets	$ -	$ -
Accrued benefit obligation	26,858	18,616
Funded status - plan deficit	(26,858)	(18,616)
Unamortized net actuarial (gain) loss	7,502	-
Unamortized transitional obligation	8,911	10,948
Accrued benefit liability, end of year	**$ (10,445)**	$ (7,668)

The accrued benefit liability included on the Corporation's balance sheet is:

(dollar amounts in 000's)	**2004**	2003
Accrued benefit liability, beginning of year	**$ (7,668)**	$ (6,031)
Current service cost	**(626)**	(591)
Interest cost	**(1,106)**	(1,063)
Benefits paid	**992**	929
Amortization of transitional obligation	**(810)**	(912)
Curtailment*	**(1,227)**	-
Accrued benefit liability, end of year	**$ (10,445)**	$ (7,668)

*During 2003-04, staff reductions resulted in curtailment, which has been fully expensed by the Corporation.

The Corporation's expense elements with respect to other post-employment benefits are:

(dollar amounts in 000's)	**2004**	2003
Current service cost	**$ 626**	$ 591
Interest cost	**1,106**	1,063
Amortization of transitional obligation	**810**	912
Curtailment	**1,227**	-
Actuarial loss	**7,502**	-
Net cost (before adjustments)	**11,271**	2,566
Adjustments-actuarial loss	**(7,502)**	-
Total expense included in Administrative Expenses	**$ 3,769**	$ 2,566

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2004	2003
Discount rate	**6.25%**	6.00%
Rate of compensation increase	**4.00%**	4.00%
Medical cost trend rate	**10.00%**	n/a
Medical cost trend rate declines to	**5.00%**	n/a
Medical cost trend rate declines over	**5 years**	n/a
Dental cost trend rate	**3.00% per year**	n/a

Sensitivity analysis

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2004:

(dollar amounts in 000's)	Increase	Decrease
Accrued benefit obligation	$ 3,493	$ (2,728)
Current service and interest cost	$ 438	$ (331)

23. CONTINGENT LIABILITY

On September 13, 2002 the North Dakota Wheat Commission and the U.S. Durum Growers Action Committee filed countervailing duty (CVD) and antidumping (AD) petitions against imports of Canadian hard red spring wheat (HRS) and durum. Over the course of the year, the Corporation vigorously defended these challenges. Preliminary tariffs came into effect in March 2003 and May 2003 for the CVD and AD petitions, respectively. On October 3, 2003 the U.S. International Trade Commission (ITC) ruled 4-0 that imports of durum are not causing injury to the U.S. durum-growing industry. Accordingly, tariffs on durum were lifted and tariff free access to the U.S. durum market has been re-established. In the case of HRS, the ITC ruled 2-2 that Canadian HRS imports are causing injury resulting in AD and CVD tariffs totaling 14.15 per cent that will be in place pending the completion of certain appeals that have been launched by the CWB and/or of administrative reviews by the U.S. Deptartment of Commerce. At this time, it is not possible to accurately assess the financial impact of the imposition of tariffs on HRS. The Corporation is pursuing a variety of appeal avenues with respect to the HRS decisions.

24. COMPARATIVE FIGURES

Certain of the prior year's figures have been restated to conform with the current year's presentation.

Glossary of financial terms

Cross-currency interest-rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest-rate payments in different currencies. Notional amounts upon which the interest-rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's-length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward – an agreement to buy and sell currency simultaneously purchased in the spot market and sold in the forward market, or vice versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk-management technique used to decrease the risk of adverse commodity price, interest-rate or foreign-exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option – a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single currency interest-rate swap – a contractual agreement for specified parties to exchange fixed interest-rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest-rate payments are based are not exchanged.

Swap – a contractual agreement to exchange a stream of periodic payments with a counterparty.

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